

AMERICAN VANGUARD CORP
Form DEF 14A
May 16, 2007

SCHEDULE 14A INFORMATION

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

AMERICAN VANGUARD CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AMERICAN VANGUARD CORPORATION

4695 MacArthur Court, Suite 1250

Newport Beach, California 92660

May 15, 2007

Dear Stockholder:

It is our pleasure to invite you to American Vanguard Corporation's Annual Meeting of Stockholders in Newport Beach, California on June 7, 2007. In the following pages you will find information about the meeting plus a Proxy Statement.

If you cannot be with us in person, please be sure to vote your shares by proxy. Just mark, sign and date the enclosed proxy card and return it in the postage-paid envelope.

We are grateful for your continuing interest in American Vanguard. In person or by proxy, your vote is important. Thank you.

Sincerely,

AMERICAN VANGUARD CORPORATION

Eric G. Wintemute

President and Chief Executive Officer

AMERICAN VANGUARD CORPORATION

4695 MacArthur Blvd., Suite 1250

Newport Beach, CA 92660

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held June 7, 2007

To the Stockholders of American Vanguard Corporation:

The Annual Meeting of the Stockholders (the Annual Meeting) of American Vanguard Corporation, a Delaware corporation, will be held at the Fairmont Newport Beach, 4500 MacArthur Boulevard, Newport Beach, California, on Thursday, June 7, 2007. The meeting will begin promptly at 11:00 a.m. local time. Matters to be voted on at the meeting are:

1. Elect seven directors until their successors are elected and qualified;
2. Ratify the appointment of BDO Seidman, LLP as independent accountants for the year ending December 31, 2007;
3. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof. Stockholders of record at the close of business on May 4, 2007 are entitled to notice of and to vote at the Annual Meeting and any adjournments thereof. A copy of the Company's Annual Report, including financial statements for the year ended December 31, 2006, is enclosed with this Notice.

It is important that your shares be represented whether or not you plan to attend the Annual Meeting. Please sign, date, and return the enclosed proxy in the enclosed postage-paid return envelope. All shares represented by the enclosed proxy, if the proxy is properly executed and returned, will be voted as you direct. If you attend the meeting, you may withdraw your proxy at that time and vote your shares in person.

By Order of the Board of Directors

James A. Barry

Senior Vice President, Chief Financial Officer,

Treasurer and Secretary

Newport Beach, California

May 15, 2007

AMERICAN VANGUARD CORPORATION

4695 MacArthur Court

Newport Beach, CA 92660

PROXY STATEMENT

Annual Meeting of Stockholders to be held June 7, 2007

Proxy Solicitation by the Board of Directors

GENERAL

This statement is furnished in connection with the Annual Meeting of Stockholders of American Vanguard Corporation (the Company) to be held at the Fairmont Newport Beach, 4500 MacArthur Boulevard, Newport Beach, California, at 11:00 a.m. local time on June 7, 2007. Stockholders of record at the close of business on May 4, 2007 will be entitled to vote at the meeting.

Proxies are being solicited by the Board of Directors of the Company (the Board). The Company will bear all costs of the solicitation. The Company does not intend to solicit proxies otherwise than by use of the mail, but certain officers and other employees of the Company or its subsidiaries, without additional compensation, may use their personal efforts, by telephone, telecommunication, or other similar means to obtain proxies. If the enclosed proxy is executed and returned, the shares represented by the proxy will be voted as specified therein. If a proxy is signed and returned without specifying choices, the shares will be voted FOR the election of each nominee for director as set forth in this Proxy Statement, FOR the proposal to ratify the appointment of BDO Seidman, LLP as independent accountants for 2007, and in the Board's discretion as to other matters that may properly come before the Annual Meeting.

Any stockholder has the power to revoke his or her proxy at any time prior to the voting thereof at the Annual Meeting by (i) filing with the Company's Secretary written revocation of his or her proxy, (ii) giving a duly executed proxy bearing a later date, or (iii) voting in person at the Annual Meeting. Attendance by a stockholder at the Annual Meeting will not in itself revoke his or her proxy. This Proxy Statement is being mailed to stockholders on or about May 15, 2007.

SECURITIES ENTITLED TO VOTE

The Board has fixed the close of business on May 4, 2007, as the record date for the purpose of determining the stockholders entitled to notice of and to vote at the Annual Meeting. The Company has only two authorized classes of shares, Preferred Stock and Common Stock, each with a par value of \$0.10 per share. There are 400,000 shares of Preferred Stock authorized, none of which have been issued. There are 40,000,000 shares of Common Stock authorized, of which 26,217,058 are outstanding as of May 15, 2007. Each stockholder will be entitled to one vote, in person or by proxy, for each share standing in his or her name on the Company's books as of the record date.

QUORUM

In order for business to be conducted, a quorum must be represented at the Annual Meeting. A quorum is a majority of the shares entitled to vote at the Annual Meeting. Shares represented by proxies in which authority to vote for any matter is considered withheld, proxies which are marked abstain or proxies as to which there is a broker non-vote will be counted as shares present for purposes of determining the presence of a quorum. Broker non-votes occur when nominees (such as brokers holding shares on behalf of beneficial owners) do not receive voting instructions from the beneficial owners and do not have discretionary authority to vote.

VOTE REQUIRED

The seven directors to be elected by the holders of Common Stock shall be the seven candidates receiving the highest number of votes cast by holders of Common Stock. Cumulative voting is not permitted. Only votes cast for a nominee will be counted. Abstentions or directions to withhold votes will result in those nominees receiving fewer votes, but will not count as a vote against the nominees.

Approval of the proposal to ratify the appointment of BDO Seidman, LLP as independent accountants will require the affirmative vote of a majority of the votes cast at the meeting. Abstentions and broker non-votes will not be treated as votes cast at the meeting and, therefore, will have no effect on such proposal. Approval of any other matter which may properly come before the meeting will require the affirmative vote of the majority of the votes cast at the meeting, except for any other proposals which may properly come before the meeting for which a different or greater vote is required by law.

PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors of the Company is elected annually. The Certificate of Incorporation and Bylaws, as each have been previously amended and restated, of the Company currently provide that the number of directors of the Board shall not be more than nine nor less than three. The Board has determined by resolution that it shall consist of seven members. Seven directors are to be elected at the Annual Meeting and will hold office from the time of the election until the next Annual Meeting and until their respective successors are duly elected and qualified, or until their earlier resignation or removal.

The following sets forth the names and certain information with respect to the persons nominated for election as directors, all of whom have had the same principal occupation for more than the past five years, except as otherwise noted. All such nominees have consented to serve, and all nominees are now directors, and were elected by the stockholders at the 2006 Annual Meeting of Stockholders.

NOMINEES FOR ELECTION AS DIRECTORS

Herbert A. Kraft has served as Co-Chairman of the Board since July 1994. Mr. Kraft served as Chairman of the Board and Chief Executive Officer from 1969 to July 1994. Age 83.

Glenn A. Wintemute has served as Co-Chairman of the Board since July 1994. Mr. Wintemute served as President of the Company and all operating subsidiaries from 1984 to July 1994 and was elected a director in 1971. He served as President of Amvac Chemical Corporation (AMVAC) from 1963 to July 1994. He is also the father of Eric G. Wintemute, the Company's President and Chief Executive Officer. Age 82.

Eric G. Wintemute has served as a director of the Company since 1994. Mr. Wintemute has also served as President and Chief Executive Officer since July 1994. He was appointed Executive Vice President and Chief Operating Officer of the Company in January 1994. He is also the son of Glenn A. Wintemute, the Company's Co-Chairman. Age 51.

Lawrence S. Clark has served as a director since February 2006. Mr. Clark is the Chief Operating Officer and CFO for Legendary Pictures, a motion picture production company that develops, co-produces and co-finances major motion pictures in partnership with Warner Bros. From 2000 to 2003, Mr. Clark was the Chief Financial Officer of Creative Artists Agency, a leading entertainment talent, literary and marketing agency. From 1997 to 2000, he served as Senior Vice President, Corporate Development for Sony Pictures Entertainment. Mr. Clark was Director International for The Carlyle Group, a private equity firm, from 1995 to 1997. In 1992, he co-founded Global Film Equity Corp., which provided strategic, business advisory and capital raising services to media companies. From 1989 to 1992, Mr. Clark was Vice President, Corporate Finance at Salomon Brothers, Inc. Prior to that, he was a Corporate Finance Associate at Goldman Sachs & Co. from 1987 to 1989. Age 48.

John B. Miles has served as a director of the Company since 1999. Mr. Miles is a Partner with the law firm McDermott Will & Emery LLP and has held the position of partner since 1987. Prior to 1987, Mr. Miles was a partner with Kadison Pfaelzer Woodward Quinn & Rossi. Mr. Miles has previously served on boards of directors for public and private corporations. Age 63.

Carl R. Soderlind has served as a director of the Company since 2000. Mr. Soderlind served as Chairman and Chief Executive Officer of Golden Bear Oil Specialties, a producer of niche specialty oil and chemical products used in a variety of industrial applications from 1997 through 2001. From 1961 to 1996 he served in various capacities of Witco Corporation, with the most recent position being Senior Executive Vice President and member of the Management Committee. Age 73.

Irving J. Thau has served as a director of the Company since 2003. From 1962 to 1995, he held various positions with Ernst & Young LLP, where his primary responsibilities were directing and providing accounting,

auditing, and business advisory services to publicly held and privately owned organizations. He was admitted to partnership in 1974, and most recently served as Ernst & Young's West Region Director of Financial Advisory Services. In 1995, Mr. Thau founded Thau and Associates, Inc., a financial consulting company of which he currently serves as President. Mr. Thau is also a director and Chairman of the Audit Committee of American Home Mortgage Investment Corp. Age 67.

REQUIRED VOTE AND RECOMMENDATION

The seven directors to be elected by the holders of Common Stock shall be the seven candidates receiving the highest number of votes cast by holders of Common Stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE NOMINEES IDENTIFIED ABOVE.

CORPORATE GOVERNANCE OF THE COMPANY

Strong corporate governance is an integral part of the Company's core values, supporting the Company's sustainable growth mission. The Company is committed to having sound corporate governance principles and practices. Please visit the Company's website at www.american-vanguard.com for the Company's current Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, the Code of Ethics and Conduct and the Employee Complaint Procedures for Accounting and Auditing Matters, and Corporate Governance Guidelines, which are all available in print to any stockholder upon request.

THE INDEPENDENCE OF DIRECTORS

It is the expectation and practice of the Board that, in their roles as members of the Board, all members will exercise their independent judgment diligently and in good faith and in the best interests of the Company and its stockholders as a whole, notwithstanding any member's other activities or affiliations.

The Board currently consists of seven members. The Board has determined that Messrs. Irving J. Thau, Carl R. Soderlind, John B. Miles, Herbert A. Kraft and Lawrence S. Clark, who constitute a majority of the Board, are independent in accordance with the applicable rules and listing standards currently prescribed by the New York Stock Exchange for general service on the Board. The Board's determination concerning independence was based on information provided by the Company's directors and discussions among the Company's directors. The Board will re-examine the independence of each of its members at least once per year and more frequently during the year if there is any change in a member's material relationship with the company that would interfere with the member's exercise of independent judgment.

MEETINGS OF THE BOARD

The Board met eight times during the year ended December 31, 2006. All directors attended at least 75% of the aggregate of the number of meetings of the board and the total number of meetings held by all committees of the board for which they served.

The non-management directors of the Company meet at regularly scheduled executive sessions without any member of the Company's management present. The individual who presides at these executive sessions is currently Herbert A. Kraft.

The Board does not mandate that its members attending the Annual Meeting of Stockholders. All directors did attend the 2006 Annual Meeting of Stockholders.

COMMITTEES OF THE BOARD

Audit Committee

The Audit Committee is currently composed of Messrs. Irving J. Thau (Chairperson), Carl R. Soderlind and Lawrence S. Clark, who are all non-employee directors and are financially literate. The Board has determined that all members of the Audit Committee are independent directors under the applicable rules and regulations currently prescribed by the Securities Exchange Commission (SEC) and the applicable rules and listing standards currently prescribed by the New York Stock Exchange, and that each of Irving J. Thau and Lawrence S. Clark are audit committee financial experts within the meaning of applicable SEC rules and regulations. The Audit Committee held seven meetings during the year ended December 31, 2006.

The responsibilities of the Audit Committee are set forth in the current Audit Committee Charter, which is available on the Company's website (www.american-vanguard.com), and include:

Employs the independent auditors, subject to stockholder ratification, to audit the Company's consolidated financial statements.

Pre-approves all services performed by the independent auditors.

Provides oversight on the external reporting process and the adequacy of the Company's internal controls.

Reviews the scope of the audit activities of the independent auditors and appraises audit efforts.

Reviews services provided by the independent auditors and other disclosed relationships as they bear on the independence of the independent auditors.

Establishes procedures for the receipt, retention and resolution of complaints, if any, regarding accounting, internal controls or auditing matters.

Please also see the Audit Committee Report contained in this Proxy Statement.

Compensation Committee

The Compensation Committee is currently composed of Messrs. Carl R. Soderlind (Chairperson), John B. Miles and Lawrence S. Clark. The Board has determined that all members of the Compensation Committee are independent directors under the applicable rules and listing standards currently prescribed by the New York Stock Exchange. The Board has also determined that at least two members of the Compensation Committee, who will administer the Company's compensation plan(s), are non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and are outside directors under Section 162(m) of the Internal Revenue Code of 1986. The Compensation Committee held four meetings during the year ended December 31, 2006.

The responsibilities of the Compensation Committee are set forth in the current Compensation Committee Charter, which is available on the Company's website (www.american-vanguard.com), and include:

Establishes executive compensation policy consistent with corporate objectives and stockholder interest.

Oversees process for evaluating CEO performance against Board-approved goals and objectives and recommends to the Board compensation for the CEO.

Administers grants under the Company's compensation plan(s).
Please also see the Compensation Committee Report contained in this Proxy Statement.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is composed of Messrs. John B. Miles (Chairperson), Carl R. Soderlind and Irving J. Thau. The Board has determined that all members of the Nominating and Corporate Governance Committee are independent directors under the applicable rules and listing standards currently prescribed by the New York Stock Exchange. The Corporate Governance Committee held three meetings during the year ended December 31, 2006.

The responsibilities of the Nominating and Corporate Governance Committee are set forth in the current Nominating and Corporate Governance Committee Charter, which is available on the Company's website (www.american-vanguard.com), and include:

Recommends to the Board nominees for election to the Board of Directors.

Reviews principles, policies and procedures affecting directors and the Board's operation and effectiveness.

Oversees evaluation of the Board and its effectiveness.

REPORT OF THE AUDIT COMMITTEE

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

We have reviewed and discussed with management the Company's audited financial statements included in the 2006 Annual Report to Stockholders. Management has confirmed to us that such financial statements (i) have been prepared with integrity and objectivity and are the responsibility of management and (ii) have been prepared in conformity with generally accepted accounting principles.

We have discussed with BDO Seidman, LLP, the Company's independent auditors, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We have received from BDO Seidman, LLP, a letter providing the disclosures required by Independence Standards Board Standard No. 1. (Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, with respect to any relationships between BDO Seidman, LLP and the Company that, in their professional judgment, may reasonably be thought to bear on independence.

Based on the review and discussions described above, we have recommended to the Board of Directors that such audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 with the Securities and Exchange Commission.

As specified in the Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. That is the responsibility of management and the Company's independent auditors. In addition, it is not the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditors, or to assure compliance with laws and regulations and the Company's Code of Conduct and Ethics. In giving our recommendation to the Board of

Directors, we have relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent auditors with respect to such financial statements.

AUDIT COMMITTEE

Irving J. Thau, Chair

Carl R. Soderlind

Lawrence S. Clark

March 9, 2007

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

To the knowledge of the Company, the ownership of the Company's outstanding Common Stock as of May 1, 2007 by persons who are beneficial owners of 5% or more of the outstanding Common Stock is set forth below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(*)	Percent of Class
Herbert A. Kraft 4695 MacArthur Court Newport Beach, CA 92660	3,387,219(1)	11.5%
Glenn A. Wintemute 4695 MacArthur Court Newport Beach, CA 92660	1,999,626(2)	6.9%
St. Denis J. Villere & Company 601 Poydras St., Suite 1808 New Orleans, LA 70130 (**)	3,082,590	10.3%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202 (**)	2,645,498	8.0%
Eric G. Wintemute 4695 MacArthur Court Newport Beach, CA 92660	1,527,547(3)	5.2%
Jay R. Harris 130 East End Ave. New York, NY 10028 (**)	2,278,303(4)	7.8%

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- (*) Beneficial ownership figures are adjusted for stock splits and stock dividends distributed to date.
 - (**) Based on information reported to the SEC by or on behalf of such beneficial owner.

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To the knowledge of the Company, the ownership of the Company's outstanding Common Stock as of May 1, 2007, by persons who are directors and nominees for directors, the executive officers of the Company named in the Summary Compensation Table, and by all directors and officers as a group is set forth below. Unless otherwise indicated the Company believes that each of the persons set forth below has the sole power to vote and to dispose of the shares listed opposite his name.

Office (if any)	Name and Address Beneficial Owner	Amount and Nature of Beneficial Ownership(*)	Percent of Class
Co-Chairman	Herbert A. Kraft 4695 MacArthur Court Newport Beach, CA 92660	3,387,219(1)	11.5%
Co-Chairman	Glenn A. Wintemute 4695 MacArthur Court Newport Beach, CA 92660	1,999,626(2)	6.9%
Director, President & CEO	Eric G. Wintemute 4695 MacArthur Court Newport Beach, CA 92660	1,527,547(3)	5.2%
Director	Carl R. Soderlind 4695 MacArthur Court Newport Beach, CA 92660	90,227(9)	(13)
Director	John B. Miles 4695 MacArthur Court Newport Beach, CA 92660	91,950(10)	(13)
Director	Irving J. Thau 4695 MacArthur Court Newport Beach, CA 92660	40,472(11)	(13)
Director	Lawrence S. Clark 4695 MacArthur Court Newport Beach, CA 92660	7,663(12)	(13)
President (GEMCHEM)	Bob Gilbane 4695 MacArthur Court Newport Beach, CA 92660	411,106(5)	1.4%
Senior Vice	Glen D. Johnson 4695 MacArthur Court	113,719(6)	(13)
President (AMVAC)	4695 MacArthur Court		

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	Newport Beach, CA 92660		
Senior Vice	Christopher K. Hildreth		
President (AMVAC)	4695 MacArthur Court		
	Newport Beach, CA 92660	183,537(7)	(13)
Sr. V.P., CFO &	James A. Barry		
Secretary/Treasurer	4695 MacArthur Court		
	Newport Beach, CA 92660	181,999(8)	(13)
Directors and Officers as a Group (11)		8,035,065	27.5%

(*) Beneficial ownership figures are adjusted for stock splits and stock dividends distributed to date.

(1) Mr. Kraft owns all of his shares with his spouse in a family trust where he and his spouse are co-trustees, except as to 13,834 shares held in an Individual Retirement Account. This figure includes 19,360 shares of Common Stock Mr. Kraft is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.

- (2) Mr. Glenn Wintemute owns all of his shares with his spouse in a family trust where he and his spouse are co-trustees. This figure includes 19,360 shares of Common Stock Mr. Glenn Wintemute is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (3) This figure includes 450,000 shares of Common Stock Mr. Eric Wintemute is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007. Mr. Wintemute shares voting and investment power with his spouse with respect to certain shares, including 139,360 shares of Common Stock owned by Mr. Wintemute's children for whom Mr. Wintemute and his spouse are trustees or custodians and for which he disclaims beneficial ownership.
- (4) This figure includes 1,065,594 shares of Common Stock Mr. Harris has either sole or shared voting or dispositive power for which he disclaims beneficial ownership.
- (5) This figure includes 24,467 shares of Common Stock Mr. Gilbane is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (6) This figure includes 36,187 shares of Common Stock Mr. Johnson is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (7) This figure includes 180,000 shares of Common Stock Mr. Hildreth is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (8) This figure includes 176,000 shares of Common Stock Mr. Barry is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (9) This figure includes 9,680 shares of Common Stock Mr. Soderlind is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007. Certain shares are held in a family trust where Mr. Soderlind and his spouse are co-trustees.
- (10) This figure includes 29,040 shares of Common Stock Mr. Miles is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007. Certain shares are held in a family trust where Mr. Miles and his spouse are co-trustees and certain shares are held by Mr. Miles or his spouse in individual retirement accounts.
- (11) This figure includes 33,880 shares of Common Stock Mr. Thau is entitled to acquire pursuant to stock options exercisable within sixty days of May 1, 2007.
- (12) This figure includes 533 shares of Common Stock owned by Mr. Clark's minor children for whom Mr. Clark and his spouse are trustees or custodians and for which he disclaims beneficial ownership.
- (13) Under 1% of class.

SECTION 16(A) REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers, directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the SEC.

Based solely on the Company's review of the copies of such forms received by the Company, or representations obtained from certain reporting persons, except as described below, the Company believes that during the year ended December 31, 2006 all Section 16(a) filing requirements applicable to its executive officers, directors, and greater than ten percent beneficial stockholders were complied with: the Form 3 filed on February 24, 2006 for Lawrence Clark was filed 7 days late, and the Form 4 filed on March 31, 2006 for Lawrence Clark was filed 49 days late.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Objectives

The company's compensation program has several objectives. First, we believe that our compensation should attract and retain top-quality executives. Many of our executives have transferred to the Company from our competitors, which are typically much larger organizations. In addition, we realize that our key executives could find work in the industry very easily. We must, therefore, be mindful that we do not fall below that of

public companies of similar size in paying its executives. In February 2006, the Compensation Committee commissioned its compensation consultant, ECG Advisors, to review compensation of the top 10 most highly paid executives at the Company, including benchmarking against public companies having annual revenues of between \$225 million and \$400 million. According to that study, the Company's executive salaries were between 4 percent above and 5 percent below the 50th percentile, executive bonuses were approximately 5 percent above the 50th percentile for target bonuses, and option values were 1 percent above the market.

Second, we believe in paying for performance. Performance, however, is not limited to company-wide objectives or personal goals. In fact, we hold our executives as a group accountable for both company-wide performance (typically in terms of net sales and net earnings) and individual performance, which varies by position. We are mindful of the fact that an executive may have an off-year, while the company has an excellent year, and vice versa. We take these factors into account in determining compensation, particularly incentive-based compensation.

Third, we believe that compensation decisions should be made with the benefit of as much current information as possible. Compensation decisions that are rigorously tied to formulas can lead to undesirable results and can fail to reward positive conduct. Indeed, it is very difficult to catalog in advance all of the factors that should be taken into account in making compensation decisions. While we do set company-wide goals and individual performance goals for our executives, when applying those criteria, we do take into account real market conditions, compensation trends, peer practices, and other factors in making compensation decisions. Thus, for example, if the entire industry is down due to unusual weather conditions, and our company has performed well compared to our peers, we will take that into account in setting compensation.

Fourth, we compensate, in part, so that our executives have a long term interest in the company's success. This is especially so in the case of equity awards. Through granting options with a 7 to 10 year term, for example, we give the optionee motivation to plan for the long-term, rather than to seek to maximize short term returns at the expense of long term returns. Equity awards also serve to align our executives' interests with those of our shareholders.

Elements of Compensation

Our named executive officers receive a base salary and certain benefits (including paid vacation, subsidized health and dental insurance, subsidized life insurance, and an automobile allowance). In addition, they participate in an annual incentive compensation plan and, from time to time, receive awards of equity, typically in the form of stock options. Further, they may choose to participate in voluntary benefit programs, such as a 401K plan and an Employee Stock Purchase Plan.

Base salary provides the executive with a reasonable standard of living and permits the company to put certain other elements of compensation at risk. Further, it would be virtually impossible to attract or retain qualified executives without this element of compensation. It forms the bulk of the executive's compensation. This is the portion of compensation that does not vary with annual changes in company-wide performance or stock market fluctuations. The executive can count on his or her salary and can plan around it. In 2006, base salary accounted for more than half, but less than two-thirds of total compensation among named executive officers.

Benefits health and dental insurance subsidies are also universally paid to executives in virtually all industries. In other words, the company must provide these subsidies in order to remain competitive. In addition, they are a good investment by the employer, as they serve to help keep the executives healthy or, when injury or sickness strikes, to bring them back to productive service. These coverages also help the executive to limit family medical expenses that, if not otherwise insured, might cause the executive severe financial hardship. Life insurance subsidies serve as a mechanism by which the company can give something of value back to the executive's family in the case of death. We believe that when our executives join the company, they are not alone

in making a commitment to us; their families are making a commitment as well. Finally, the automobile allowance serves to help the executive to offset the increasingly high cost of operating a motor vehicle. It is also a common perquisite, which the company offers in order to remain competitive. The size of the allowance is consistent with ensuring that the executive will have reliable transportation to and from work, rather than permitting the executive to obtain something extravagant.

Voluntary benefits our 401K plan is a tool for retirement planning, which serves to encourage the executive to plan for retirement now. The company matching contribution has a strong retention effect; a generous 401K plan can make a significant difference in one's employment decisions. The Company does not sponsor a defined benefit pension plan. Similarly, the American Vanguard Corporation Stock Purchase Plan serves as a means for retaining executives. It gives our executives (and other employees) the opportunity to acquire equity at a discount, which right is not available to outsiders. It also provides a means for acquiring stock at a discounted price through relatively minimal payroll deductions over a period of time. Further, the ESPP is a mechanism by which the executive can put some skin in the game by investing in the company. Equity ownership helps to align the executive's interests with that of our shareholders and serves to foster a long term perspective in the executive.

The only two forms of long-term compensation are the Company's equity awards and the executive's voluntary participation in the 401K plan. Our policy for allocating between long-term (equity) and current compensation depends largely on the perceived value of the equity. For example, to the extent that the Company's stock price has appreciated continuously over multiple quarters and industry prospects look promising, we would tend to place a greater value on an award of equity. Conversely, if the stock price has exhibited volatility or lost value over time, then we might place a lesser value on equity awards, particularly if industry conditions are fair to poor. In the former case, we would place a greater emphasis on equity awards, while, in the latter case, we would place a greater emphasis on current compensation.

The Compensation Committee, working with its compensation consultant, regularly visits the question of whether, when and how to award equity. In making its recommendation, the Committee considers the length of time since the last equity award, the performance of the Company's stock, the Company's financial performance, the executives' performance, and the financial impact of making awards. The Committee's recommendations are also guided by the research of its compensation consultant, including benchmarking of similarly situated companies as to the prevalence of equity awards and total compensation among senior executives. In addition, the Committee maintains a relatively continuous discourse with the Chief Executive Officer on both the performance and expectations of senior management. Through this hermeneutic, the Committee selects grant dates and recommends awards that are perceived to be of value, that are consistent with those made by our peers, that have a reasonable financial impact on the Company, and that are warranted by the Company's and executives' performance. The Committee is mindful of avoiding grants while in possession of material non-public information and, with respect to option grants in particular, pursuant to the Company's 1994 Stock Incentive Plan, sets the strike price of the grant to be the closing price of the Company's common stock as of the date of the award.

The Company is currently reviewing potential equity ownership guidelines for all of its executives

We do take into account the accounting and tax treatments for the Company of all forms of compensation. For example, in order to maximize the Company's ability to deduct the executive compensation under the Internal Revenue Code of 1986, as amended, (IRC) Section 162(m), we have historically limited the number of Incentive Stock Option awards given to an individual in a given year to those having a fair market value of under \$100,000. Further, under the terms of the Change of Control Agreements, benefits paid thereunder will be reduced to the extent that they would constitute a nondeductible excess parachute payment under IRC Section 280G or nondeductible employee remuneration under Section 162(m). We follow all applicable accounting rules and tax laws in respect of all forms of compensation; for example, we expense options and stock awards. Because the timing of this expense depends upon the vesting of these equity awards, we set vesting

schedules to optimize deferring costs into the future. In making equity awards, we do consider the tax impact upon the recipient. We have tended to favor stock option awards over awards of restricted stock, as the latter can have immediate, adverse tax consequences for our executives.

Compensation Policies and Benchmarking

The Compensation Committee retains considerable discretion to structure and adjust compensation with respect to both individuals and executives as a group. We do not follow a formulaic approach toward setting compensation. While formulaic approaches do tend to lead to greater certainty in results, they can also have unintended consequences. It is very difficult to capture in a formula all of the factors that should be taken into account when setting or adjusting compensation. We believe that, in making compensation decisions, it is important to consider not only corporate performance, but also individual performance and further, that corporate performance should be considered in the context of the industry. Thus, for example, if company performance was behind plan in a down market, but the executive team performed well, the Compensation Committee might adjust the incentive pool downward and make reduced awards to executives. Conversely, if company performance was ahead of plan in a solid market, but certain executives were not contributing, then the Committee might reduce awards to those certain individuals.

The Chief Executive Officer defines performance goals for his direct reports (which include all of the other named executive officers) and, working with the board and the management team, defines financial performance goals for the company. These goals serve as the foundation upon which the Compensation Committee can build a compensation scheme in keeping with other information, including studies performed by the Committee's compensation consultant as well as its own research and experience. Throughout the year, the Committee maintains an open dialogue with the CEO with respect to compensation philosophy, changing business conditions, and executive performance. Further, annually, the CEO provides the Committee with recommendations for defining the incentive pool and allocating that pool among employees generally. The CEO serves as a source of information for the Committee, and, in making its own decisions, the Committee does give consideration to the CEO's recommendations. However, the Committee makes independent decisions with respect to compensation and freely draws upon all sources that it deems necessary for guidance in making its those decisions.

With respect to corporation performance, the Company considers several factors. First, we consider top and bottom line performance, specifically in terms of net sales and earnings per share. Specifically, we observe whether we have grown net sales and net earnings with respect to the prior year, the past several years, and the budget contained within the Company's financial plan. Second, we look at the relative performance of each of our product lines and compare that performance to our product line budget. Third, we consider the relative performance of our company, particularly net sales and net earnings, with that of our peer companies. Fourth, we analyze whether we have met our strategic goals.

With respect to individual performance, without discussing more specific factors that are competition sensitive, we consider the following general factors in making compensation decisions. We believe that these factors are reasonable and attainable by our executives.

President and Chief Executive Officer

Achieving financial results that equal or exceed the Company's financial plan.

Attracting and maintaining excellent relationships with desirable investors.

The setting and achievement of strategic goals, including anticipation of, and response to, industry trends.

Building and retaining a sound management team.

Senior Vice President, Chief Financial Officer, Secretary/Treasurer

Maintaining sound internal financial controls and accounting systems that result in timely and reliable financial disclosures.

Attracting and retaining sources of capital necessary to permit the Company to operate and to grow through acquisition.

Providing the CEO and board with long and short term budgets, including strategic capital planning.

Keeping the board apprised of current and recent financial performance in detail sufficient to permit the board to carry out its duties toward our shareholders.

Senior Vice President and Director of Business Development

Finding and acquiring new product lines that are accretive to the Company's financial performance consistent with the Company's financial plan.

Developing business opportunities through research and development, licensing, or other means.

Achieving growth of existing product lines through expansion of permitted uses, improvement of product performance, and packaging and delivery systems.

Senior Vice President and Director of Sales

Achieving net sales that equal or exceed those set forth in the Company's financial plan.

Maintaining excellent relations with existing customers and attracting new customers.

Successfully launching new product lines.

Managing a global sales team and distribution chain for the Company's products.

President of GemChem Inc.

Maintaining a continuous supply chain for raw materials and intermediates at globally competitive prices.

Launching new products and expanding the use of certain existing products outside of agriculture.

We might decide to increase compensation materially if some or all of the following factors were present: the executive's compensation is materially below that of his or her peers; the executive has taken on additional responsibilities; the executive has saved the Company significant costs; the executive has far exceeded individual performance goals. Conversely, we might decide to decrease compensation materially if some or all of the following factors were present: the executive has shown an inability to carry out responsibilities or manage his or her function; the

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executive seeks to work on a reduced schedule; the executive has had material duties taken away; the executive's function or duties material thereto have become materially less important to the Company.

With respect to equity awards, we would consider the relative value of prior stock option awards in determining whether or in what amount to make additional awards of equity. If, for example, recent option awards were under water, we might be more inclined to make an additional award of options or an award of restricted stock.

Severance and Change of Control Provisions

Each of the named executive officers is party to a Change of Control Severance Agreement dated as of January 1, 2004 and expiring December 31, 2008. Under the terms of those agreements, the employee is entitled to receive certain payments in the event that there is a change of control during the term of agreement and such

employee is either terminated (for reasons other than cause) or resigns for good reason. If the employee is terminated for cause or due to death or disability, he is not entitled to severance under the agreement. Provided the conditions for payment are met, employee is entitled to receive a lump sum amount equal to two years' base salary, 24 months' worth of COBRA coverage for medical insurance, executive level outplacement costs, and acceleration of unvested options (or other securities to which employee may have a right). For purposes of these agreements, "change in control" is defined to mean, in effect, either (i) a merger or consolidation of the company in which those who were shareholders immediately before the effective time of the merger or consolidation have less than 50% of the voting power of the new corporation or entity; (ii) a sale or disposition of all or substantially all of the company's assets; or (iii) when any person (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) directly or indirectly owns more than 50% of the common stock of the company. As a condition to payment, the employee must enter into a written release of claims against the company.

The company chose the three change of control events to protect these key executives in the event of new ownership. Our executive team has helped to build this company over many years into what it is today. In recognition of the team's contribution, and out of a sense of fairness, we believe it is appropriate to make provision for the executive team in advance, given that a new owner would not likely have any allegiance to the team. Further, these arrangements would give current management a disincentive to undercut an otherwise desirable merger and serve to quantify the cost of termination of subject executives for any potential acquiror.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402 (b) of Regulation S-K with management and, based on the review and discussions referred to in paragraph (e)(5)(i)(A) of that Item, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the registrant's annual report on Form 10-K.

Carl R. Soderlind, Chairman

Lawrence S. Clark, Member

John B. Miles, Member

EXECUTIVE OFFICERS OF THE COMPANY

The following persons are the current Executive Officers of the Company:

Name of Officer	Age	Capacity
Eric G. Wintemute	51	Director, President and Chief Executive Officer
James A. Barry	56	Senior Vice President, Chief Financial Officer & Secretary/Treasurer
Glen D. Johnson	52	Senior Vice President of AMVAC Chemical Corporation
Christopher K. Hildreth	55	Senior Vice President of AMVAC Chemical Corporation
Robert F. Gilbane	57	President of GemChem, Inc.

Information concerning Eric G. Wintemute is contained above under the caption "Nominees for Election as Directors."

James A. Barry has served as Senior Vice President and Secretary since 1998. He has served as Treasurer since 1994 and as Chief Financial Officer of the Company and all operating subsidiaries since 1987. He also served as Vice President from 1990 through 1997 and as Assistant Secretary from 1990 to 1997. From 1990 to 1993, he also served as Assistant Treasurer. Mr. Barry also served as a director of the Company from 1994 through June 2004.

Glen D. Johnson has served as Senior Vice President and Director of Business Development of AMVAC since February 1999. Mr. Johnson was previously the North American Senior Marketing Manager for Contract Sales at Zeneca Ag Products. Prior to joining AMVAC, Mr. Johnson had over 20 years of experience in sales and marketing, acquisition and licensing, market development, and field research and development with three multinational agrochemical companies.

Christopher K. Hildreth has served as Senior Vice President and Director of Sales of AMVAC since February 2003. From 1980 to 1988, Mr. Hildreth held sales management positions at Pfizer Crop Protection;">

Shareholders Equity

Preferred Stock authorized - 5,000,000; none outstanding

Common Stock-par value-\$1.00; authorized - 75,000,000; Issued - 50,971,611; 50,824,178; and 50,825,254 shares at June 30, 2008, December 31, 2007 and June 30, 2007, respectively

	50,972
	50,824
	50,825
Additional paid-in capital	
	421,689
	420,168
	419,277
Accumulated other comprehensive loss	
	(24,853
)	
	(9,349
)	
	(50,709
)	
Retained earnings	
	1,403,062
	1,369,999

1,307,638

Treasury shares, at cost - 2,811,898; 2,588,299; and 1,578,322 shares at June 30, 2008, December 31, 2007 and June 30, 2007, respectively

(183,222

)

(176,035

)

(105,681

)

Total shareholders' equity

1,667,648

1,655,607

1,621,350

Total liabilities and shareholders' equity

\$

16,339,258

\$

15,889,290

\$

15,795,996

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

In thousands, except per share amounts	For the three months ended June 30		For the six months ended June 30	
	2008	2007	2008	2007
Interest Income				
Loans and leases	\$ 166,158	\$ 192,356	\$ 345,469	\$ 373,026
Securities available-for-sale	26,565	31,704	53,841	63,824
Trading account	397	910	976	1,697
Due from banks - interest-bearing	529	535	1,051	1,016
Federal funds sold and securities purchased under resale agreements	58	320	122	503
Total interest income	193,707	225,825	401,459	440,066
Interest Expense				
Deposits	27,292	57,434	66,122	107,758
Federal funds purchased and securities sold under repurchase agreements	7,611	6,190	17,242	13,746
Subordinated debt	1,587	4,048	3,815	8,072
Other long-term debt	2,234	3,721	5,287	7,318
Other short-term borrowings	4,815	1,528	10,660	2,999
Total interest expense	43,539	72,921	103,126	139,893
Net interest income	150,168	152,904	298,333	300,173
Provision for credit losses	35,000		52,000	
Net interest income after provision for credit losses	115,168	152,904	246,333	300,173
Noninterest Income				
Trust and investment fees	34,187	34,823	70,536	65,077
Brokerage and mutual fund fees	18,709	13,958	36,131	27,738
Cash management and deposit transaction charges	12,196	8,472	23,320	16,943
International services	8,176	7,562	15,863	14,025
Bank-owned life insurance	628	761	1,283	1,385
Loss on sale of other assets	(192)		(192)	(46)
(Loss) gain on sale of securities	(417)	866	552	1,135
Other	8,177	7,246	13,787	13,379
Total noninterest income	81,464	73,688	161,280	139,636
Noninterest Expense				
Salaries and employee benefits	87,520	80,904	177,699	158,888
Net occupancy of premises	12,462	10,362	23,974	19,820
Legal and professional fees	7,531	8,590	16,091	17,311
Information services	6,388	5,750	12,594	11,301
Depreciation and amortization	5,460	5,122	10,962	10,122
Marketing and advertising	5,360	5,783	10,955	9,781
Office services	3,140	2,938	6,126	5,685
Amortization of intangibles	1,528	2,623	3,959	4,253
Equipment	746	797	1,659	1,515
Other real estate owned	320		320	
Other operating	8,801	7,446	14,758	13,352
Total noninterest expense	139,256	130,315	279,097	252,028
Minority interest expense	2,262	2,325	5,568	4,401
Income before income taxes	55,114	93,952	122,948	183,380

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Income taxes		19,630		34,799		43,477		67,682
Net income	\$	35,484	\$	59,153	\$	79,471	\$	115,698
Net income per share, basic	\$	0.74	\$	1.22	\$	1.66	\$	2.39
Net income per share, diluted	\$	0.73	\$	1.19	\$	1.64	\$	2.34
Shares used to compute income per share, basic		47,849		48,675		47,839		48,323
Shares used to compute income per share, diluted		48,447		49,838		48,482		49,461
Dividends per share	\$	0.48	\$	0.46	\$	0.96	\$	0.92

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

Dollars in thousands	For the six months ended	
	2008	2007
	June 30	
Cash Flows From Operating Activities		
Net income	\$ 79,471	\$ 115,698
Adjustments to net income:		
Provision for credit losses	52,000	
Amortization of intangibles	3,959	4,253
Depreciation and amortization	10,962	10,122
Amortization of cost and discount on long-term debt	264	354
Stock-based employee compensation expense	7,225	7,078
Loss on sale of other assets	192	46
Gain on sales of securities	(552)	(1,135)
Other, net	5,425	10,753
Net change in:		
Trading account securities	88,530	30,451
Deferred income tax benefit	(15,747)	(6,809)
Other assets and other liabilities, net	(42,076)	(44,442)
Net cash provided by operating activities	\$ 189,653	126,369
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(208,080)	(119,342)
Sales of securities available-for-sale	88,157	48,502
Maturities and paydowns of securities	255,395	272,842
Loan originations, net of principal collections	(582,379)	(241,479)
Purchase of premises and equipment	(15,854)	(14,701)
Acquisition of BBNV, net of cash acquired		(50,398)
Acquisition of Convergent Wealth, net of cash acquired		(100,621)
Other investing activities	(13,680)	(5,244)
Net cash used in investing activities	(476,441)	(210,441)
Cash Flows From Financing Activities		
Net decrease in deposits	73,832	516,496
Net decrease in federal funds purchased and securities sold under repurchase agreements	(322,983)	(152,965)
Net increase (decrease) in short-term borrowings	855,000	(24,707)
Net (decrease) increase in other borrowings	(111,230)	96
Proceeds from exercise of stock options	6,985	15,840
Tax benefit from exercise of stock options	1,046	6,179
Stock repurchases	(21,638)	(20,198)
Cash dividends paid	(46,408)	(44,721)
Net cash provided by financing activities	434,604	296,020
Net increase in cash and cash equivalents	147,816	211,948
Cash and cash equivalents at beginning of year	454,069	611,054

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Cash and cash equivalents at end of period	\$	601,885	\$	823,002
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Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest	\$	116,097	\$	142,645
Income taxes		55,148		52,595

Non-cash investing activities:

Transfer of loans to OREO	\$	12,612	\$	
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See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(Unaudited)

Dollars in thousands	Shares issued	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock	Total shareholders equity
Balance, December 31, 2006	50,718,794	\$ 50,719	\$ 412,248	\$ (41,459)	\$ 1,264,697	\$ (195,363)	\$ 1,490,842
Adjustment to initially apply FASB interpretation 48					(28,036)		(28,036)
Balance, January 1, 2007	50,718,794	50,719	412,248	(41,459)	1,236,661	(195,363)	1,462,806
Net income					115,698		115,698
Other comprehensive income net of tax:							
Amortization of prior service cost				109			109
Net unrealized loss on securities available-for-sale, net of taxes of \$7.7 million and reclassification of \$0.4 million for net loss included in net income				(10,680)			(10,680)
Net unrealized gain on cash flow hedges, net of taxes of \$1.0 million and reclassification of \$2.0 million net loss included in net income				1,321			1,321
Total comprehensive income				(9,250)	115,698		106,448
Issuance of shares for stock options			(13,936)			29,776	15,840
Restricted stock grants, net of cancellations	106,460	106	(106)				
Stock-based employee compensation expense			6,981				6,981
Tax benefit from stock options			6,179				6,179
Cash dividends paid					(44,721)		(44,721)
Repurchased shares, net						(20,198)	(20,198)
Issuance of shares for acquisition			7,911			80,104	88,015
Balance, June 30, 2007	50,825,254	\$ 50,825	\$ 419,277	\$ (50,709)	\$ 1,307,638	\$ (105,681)	\$ 1,621,350
Balance, January 1, 2008	50,824,178	\$ 50,824	\$ 420,168	\$ (9,349)	\$ 1,369,999	\$ (176,035)	\$ 1,655,607
Net income					79,471		79,471
Other comprehensive income net of tax:							
Amortization of prior service cost				(26)			(26)
Net unrealized loss on securities available-for-sale, net of taxes of \$10.0 million and reclassification of \$0.1 million net loss included in net income				(13,845)			(13,845)
Net unrealized loss on cash flow hedges, net of taxes of \$1.2				(1,633)			(1,633)

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million and reclassification of
\$1.5 million net income included
in net income

Total comprehensive income	(15,504)		79,471		63,967
Issuance of shares for stock options	(7,466)			14,451	6,985
Restricted stock grants, net of cancellations	147,433	148	(148)		
Stock-based employee compensation expense			7,136		7,136
Tax benefit from stock options			1,268		1,268
Cash dividends paid				(46,408)	(46,408)
Repurchased shares, net				(21,638)	(21,638)
Net change in deferred compensation plans			731		731
Balance, June 30, 2008	50,971,611 \$	50,972 \$	421,689 \$	(24,853) \$	1,403,062 \$
				(183,222) \$	1,667,648

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. **Organization** - City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 62 offices in Southern California, the San Francisco Bay area, Nevada and New York City. Additionally, the Corporation delivers investment and wealth advisory services through its wealth advisory affiliates. The Corporation also has an unconsolidated subsidiary, Business Bancorp Capital Trust I. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999. References to the Company mean the Corporation, Bank, all subsidiaries and affiliates together.

2. **Consolidation** - The financial statements of the Company include the accounts of the Corporation, its non-bank subsidiaries, the Bank and the Bank's wholly-owned subsidiaries, after the elimination of all material intercompany transactions. Preferred stock, issued by the Company's REITs, and third-party equity ownership in affiliates are reflected as Minority interest in consolidated subsidiaries in the Consolidated Balance Sheet. The related minority share of earnings is shown as Minority interest expense in the Consolidated Statement of Income.

The Company's investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to the Corporation and the minority owners. All majority-owned affiliates are consolidated. The Corporation's interest in one investment management affiliate in which it holds a minority share is accounted for using the equity method.

3. **Acquisitions** - On February 28, 2007, the Company completed the acquisition of Business Bank Corporation, the parent of Business Bank of Nevada (BBNV) and an unconsolidated subsidiary, Business Bancorp Capital Trust I, in a cash and stock transaction valued at \$167 million. BBNV operated as a wholly-owned subsidiary of City National Corporation until after the close of business on April 30, 2007, at which time it was merged into the Bank.

On May 1, 2007, the Corporation completed the acquisition of Lydian Wealth Management in an all-cash transaction. The investment advisory firm is headquartered in Rockville, Maryland and now manages or advises on client assets totaling \$9.2 billion. Lydian Wealth Management changed its name to Convergent Wealth Advisors (Convergent Wealth) and became a subsidiary of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003. All of the senior executives of Convergent Wealth signed employment agreements and acquired a significant minority ownership interest in Convergent Wealth.

4. **Accounting Policies** - Our accounting and reporting policies conform to generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying our estimates and assumptions could cause actual financial results to differ from our estimates. The material estimates included in the financial statements relate to the allowance for loan and lease losses, the reserve for off-balance sheet credit commitments, valuation of stock options, income taxes, goodwill and intangible asset values and valuation of financial assets and liabilities reported at fair value. The Company has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements to the periods in which they applied. The allowance for loan and lease losses reflects management's ongoing assessment of the credit quality of the company's portfolio, which is affected by various economic trends, including weakness in the housing sector. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, risk-rating migration and growth in the portfolio. The Company's estimates and assumptions are expected to change as changes in market conditions and the Company's portfolio occur in subsequent periods.

The Company is on the accrual basis of accounting for income and expense. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on

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Form 10-K for the year ended December 31, 2007. The results for the 2008 interim period are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2007 Annual Report other than the adoption of SFAS 157 effective January 1, 2008. The Company has revised certain assumptions related to the adoption of SFAS 157 as discussed below and in Note 5 to these consolidated financial statements.

Certain prior period balances have been reclassified to conform to the current period presentation.

During the six months ended June 30, 2008, the following accounting pronouncements applicable to the Company were issued or became effective:

- The Company adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157) effective January 1, 2008. SFAS 157 defines fair value for financial reporting purposes, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require new fair value measurements, but does apply under other accounting pronouncements where fair value is required or permitted. The provisions of the statement are being applied prospectively. The Company was not required to record a transition adjustment upon adoption of the Statement.

- On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 amends FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), to delay the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of non-financial assets for the Company include goodwill and intangible assets associated with acquisitions. FSP 157-2 defers the effective date of SFAS 157 for items within its scope to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

- The Company adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) as of January 1, 2008. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The objective of the Statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company has not elected the fair value option for any financial assets or liabilities previously reported at cost.

- FASB Staff Position, (FSP) FIN 39-1, which amends certain aspects of FASB Interpretation Number 39, *Offsetting of Amounts Related to Certain Contracts - an interpretation of APB Opinion No. 10 and FASB Statement No. 105* (FIN 39) became effective for the Company on January 1, 2008. The FSP amends paragraph 10 of FIN 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts, including amounts that approximate

fair value, recognized for **derivative instruments** executed with the same counterparty under the same master netting arrangement. Derivative instruments permitted to be netted for the purposes of the FSP include those instruments that meet the definition of a derivative in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, including those that are not included in the scope of SFAS 133. The FSP only impacts the presentation of the derivative's fair value and the related collateral on the balance sheet. From time to time the Company may require or accept cash collateral, but as of June 30, 2008 the Company did not have any cash collateral receivables and payables with the same counterparty that could be offset. The FSP is not expected to have any impact on the Company's financial statements in the future as the Company does not expect to have any cash collateral receivables and payables with the same counterparty that could be offset.

- EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*, that became effective for the Company on January 1, 2008, provides that realized income tax benefits from dividends or dividend equivalents that are charged to retained earnings and paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options are to be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards are to be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. The Company previously recognized tax benefits associated with dividend payments on unvested shares as a reduction of income tax expense. The change in accounting for these tax benefits under the EITF did not have a significant impact on the Company's financial statements.

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- On March 19, 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). The Statement expands disclosure requirements for derivative instruments and hedging activities. The new disclosures will address how derivative instruments are used, how derivatives and the related hedged items are accounted for under SFAS 133, how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. In addition, companies will be required to disclose the fair values of derivative instruments and their gains and losses in a tabular format. SFAS 161 is effective for fiscal years beginning after November 15, 2008.

 - On April 25, 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141, *Business Combinations*, when the underlying arrangement includes renewal or extension terms. FSP 142-3 permits an entity to use its own assumptions, based on its historical experience, about the renewal or extension of an arrangement to determine the useful life of an intangible asset. These assumptions are to be adjusted for the entity-specific factors detailed in SFAS 142. FSP 142-3 is effective on a prospective basis for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP 142-3 to have a significant impact on its consolidated financial statements.

 - In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 becomes effective 60 days following approval from the Securities and Exchange Commission, (SEC) of the Public Company Accounting Oversight Board, (PCAOB) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS 162 is not expected to result in a change in the Company's financial reporting practices.
5. **Fair Value Measurements** - The Company adopted FASB Statement No. 157, *Fair Value Measurements* (SFAS 157) effective January 1, 2008 on a prospective basis. SFAS 157 defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Under the statement, fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated for purposes of applying SFAS 157. The valuation premise is a concept that determines whether an asset is measured on a standalone basis or in combination with other assets. For purposes of applying the provisions of SFAS 157, the Company measures its assets and liabilities on a standalone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

Fair Value Hierarchy

Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are based on assumptions that market participants would use in pricing an asset or liability. SFAS 157 prioritizes inputs used in valuation techniques as follows:

Level 1-Quoted market prices in an active market for identical assets and liabilities.

Level 2-Observable inputs including quoted prices (other than level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3-Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

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If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

Valuation Techniques

Securities

Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency securities held in the trading account, are based on quoted market prices. Securities with fair values based on quoted market prices are classified in Level 1 of the fair value hierarchy. Level 2 securities include the Company's portfolio of Federal agency, mortgage-backed, state and municipal securities for which fair values are calculated with models using quoted prices and other inputs directly or indirectly observable for the asset or liability. Prices for 99 percent of these securities are obtained through a third-party valuation source. Management reviewed the valuation techniques and assumptions used by the provider and determined that the provider utilizes widely accepted valuation techniques based on observable market inputs appropriate for the type of security being measured. Prices for the remaining securities are obtained from dealer quotes. Securities classified in Level 3 are collateralized debt obligation instruments. Fair values for these securities are obtained from dealer quotes based on discounted cash flow models. Certain assumptions used in the dealers' models are not observable in the market.

Loans

The Company does not record loans at fair value with the exception of impaired loans which are measured for impairment in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan* (SFAS 114). Under SFAS 114, loans measured for impairment based on the fair value of collateral or observable market prices are within the scope of SFAS 157. Loans reported at fair value in the table below were measured for impairment by valuing the underlying collateral based on third-party appraisals. These loans are classified in Level 2 of the fair value hierarchy.

Derivatives

The Company uses interest rate swaps to manage its interest rate risk. The fair value of these swaps is obtained through third-party valuation sources that use conventional valuation algorithms. The pricing model is a discounted cash flow model that relies on inputs, such as interest rate futures, from highly liquid and active markets. The Company also enters into interest rate risk protection products with certain clients. These contracts are offset by paired trades with derivative dealers. The fair value of these derivatives is obtained from a third-party valuation source that uses conventional valuation algorithms.

To comply with the provisions of FAS 157, the Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk for both the Company and counterparties in the fair value measurements. Although the Company has determined that the majority of the inputs

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used to value derivative contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments utilize Level 3 inputs, such as estimates of credit spreads. The Company has determined that the impact of the credit valuation adjustments is not significant to the overall valuation of these derivatives. As a result, the Company has classified the derivative contract valuations in their entirety in Level 2 of the fair value hierarchy.

The fair value of foreign exchange options and transactions are derived from market spot and/or forward foreign exchange rates and are classified in Level 1 of the fair value hierarchy.

Other Real Estate Owned

The fair value of OREO is based on third-party appraisals of the properties performed in accordance with professional appraisal standards and Bank regulatory requirements under FIRREA. Appraisals are reviewed and approved by the Company's appraisal department. OREO is classified in Level 2 of the fair value hierarchy.

The Company records securities available-for-sale, trading securities and derivative contracts at fair value on a recurring basis. Certain other assets such as impaired loans and OREO are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are evaluated for impairment and for which any

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impairment is recorded in the period in which the remeasurement is performed. A distribution of asset and liability fair values according to the fair value hierarchy at June 30, 2008 is provided in the table below:

(Dollars in thousands)

Asset or Liability Measured at Fair Value	June 30, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale				
Debt portfolio	\$ 2,178,926	\$ 55,793	\$ 2,123,133	\$
Other equity securities	124,056	72,286	22,667	29,103
Trading account securities	204,825	184,393	20,432	
Mark-to-market derivatives (1)	18,227	2,920	15,307	
Total assets at fair value	\$ 2,526,034	\$ 315,392	\$ 2,181,539	\$ 29,103
Liabilities				
Mark-to-market derivatives (2)	\$ 5,457	\$ 3,215	\$ 2,242	\$
Total liabilities at fair value	\$ 5,457	\$ 3,215	\$ 2,242	\$
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3)	\$ 55,884		\$ 55,884	\$
Other real estate owned (4)	9,765		9,765	
Total assets at fair value	\$ 65,649		\$ 65,649	\$

(1) Reported in Other assets in the Consolidated Balance Sheet.

(2) Reported in Other liabilities in the Consolidated Balance Sheet.

(3) Impaired loans for which fair value was calculated using the collateral valuation method.

(4) OREO balance of \$9,113 included in the Consolidated Balance Sheet is net of estimated disposal costs.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized in the following table. There were no purchases or sales of Level 3 assets during the period. As part of the regular quarterly review of assets, management determined that the CDOs in the Company's investment portfolio should be classified as level 3 assets. The classification as Level 3 is based on limited market liquidity for these securities, and that certain inputs to the valuation model used to determine the fair value of CDOs may not be directly observable in the markets. Unrealized gains and losses on Level 3 assets are reported as a component of other comprehensive income in the consolidated balance sheet.

Level 3 Assets Measured on a Recurring Basis

(Dollars in thousands)	Securities Available-for-Sale
Balance of recurring Level 3 assets at January 1, 2008	\$ 32,977

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Total gains or losses (realized/unrealized):

Included in earnings-realized		
Included in earnings-unrealized		
Included in other comprehensive income		(1,652)
Purchases, sales, issuances and settlements, net		(2,222)
Transfers in and/or out of Level 3		
Balance of recurring Level 3 assets at June 30, 2008	\$	29,103

FSP 157-2 issued on February 12, 2008, amends SFAS 157, to delay its effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a

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recurring basis (at least annually). Therefore, the Company's goodwill and customer-relationship intangibles will be subject to the provisions of SFAS 157 effective January 1, 2009.

6. **Investment Securities** Securities are classified based on management's intention on the date of purchase. All securities other than trading securities are classified as available-for-sale and are valued at fair value. Unrealized gains or losses on securities available-for-sale are excluded from net income but are included as separate components of other comprehensive income, net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method over the expected lives of the individual securities. For most of the Company's investments, fair values are determined based upon externally verifiable quoted prices or other observable inputs. On a quarterly basis, the Company makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers such factors as the length of time and the extent to which the market value has been less than cost and the Company's intent with regard to the securities in evaluating them for other-than-temporary impairment. The value of securities is reduced when unrealized losses are considered other-than-temporary, and a new cost basis is established for the securities. Any other-than-temporary loss is included in net income. Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method. Trading securities are valued at fair value with any unrealized gains or losses included in net income.

7. **Shareholders Equity** - The following table provides information about purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Securities and Exchange Act of 1934 during the quarter ended June 30, 2008:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/08 - 04/30/08	30,000	\$ 44.87	30,000	1,340,400
05/01/08 - 05/31/08				1,340,400
06/01/08 - 06/30/08	200,000	\$ 43.35	200,000	1,140,400
	230,000(1)	\$ 43.55	230,000	1,140,400

(1) On January 24, 2008, the Company's Board of Directors authorized the Company to repurchase 1 million additional shares of the Company's stock following the completion of its previously approved initiative. Unless terminated earlier by resolution of our Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder. We received no shares in payment for the exercise price of stock options.

On April 23, 2008 the Corporation's shareholders approved the reservation of an additional 3.5 million shares for issuance under the Corporation's 2008 Omnibus Plan. In total there are 4.1 million shares available to be issued under this plan.

Basic earnings per share are based on the weighted average shares of common stock outstanding less unvested restricted shares and units. Diluted earnings per share give effect to all potential dilutive common shares, which consist of stock options and restricted shares and units that were outstanding during the period, as well as shares that may be issued under our deferred compensation plan. At June 30, 2008, there were 3,353,706 antidilutive options compared to 279,508 antidilutive options at June 30, 2007.

8. **Share-Based Compensation** - The Company applies FASB Statement No. 123 (revised), Share-Based Payment, (SFAS 123R) in accounting for stock option plans. The Company uses a Black-Scholes methodology to determine the stock-based compensation expense for these plans. On June 30, 2008, the Company had one stock-based compensation plan, the City National Corporation 2008 Omnibus Plan (the Plan), which was approved by the Company's shareholders on April 23, 2008. No new awards will be granted under predecessor plans. A description of the Plan is provided below. The compensation cost that has been recognized for all share-based awards was \$3.7 million and \$7.2 million for the three and six-month periods ended June 30, 2008, compared to \$3.7 million and \$7.1 million for the three and six-month periods ended June 30, 2007. The Company received \$7.0 million and \$15.8 million in cash for the exercise of stock options during the six-month periods ended June 30, 2008 and June 30, 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$1.3 million and \$6.2 million for the six months ended June 30, 2008 and 2007, respectively.

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The Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company's eligible employees and non-employee directors. No grants of performance shares, performance share units, performance units or stock appreciation rights had been made as of June 30, 2008. The purpose of the Plan is to promote the success of the Company by providing an additional means to attract, motivate, retain and reward key employees of the Company with awards and incentives for high levels of individual performance and improved financial performance of the Company, and to link non-employee director compensation to shareholder interests through equity grants. Stock option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. These awards vest in four years and have 10-year contractual terms. Restricted stock awards granted under the Plan vest over a period of at least three years, as determined by the Compensation, Nominating and Governance Committee. The participant is entitled to dividends and voting rights for all shares issued even though they are not vested. Restricted stock awards issued under predecessor plans vest over five years. The Plan provides for acceleration of vesting if there is a change in control (as defined in the Plan) or a termination of service, which may include disability or death. Unvested options are forfeited upon termination of employment, except for those instances noted above, and the case of the retirement of a retirement-age employee for options granted prior to January 31, 2006. All unexercised options expire 10 years from the grant date. At June 30, 2008 there were approximately 4.1 million shares available for future grants.

Fair Value

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation methodology that uses the assumptions noted in the following table. The Company evaluates exercise behavior and values options separately for executive and non-executive employees. Expected volatilities are based on the historical volatility of the Company's stock. As of February 2008, the Company began using a 20-year look back period to calculate the volatility factor. The longer look back period reduces the impact of the recent disruptions in the capital markets, and provides values that management believes are more representative of expected future volatility. Prior to this date, the Company used a look back period equal to the expected term of the options. The Company uses historical data to predict option exercise and employee termination behavior. The expected term of options granted is derived from the historical exercise activity over the past 20 years and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is equal to the dividend yield of the Company's stock at the time of the grant.

To estimate the fair value of stock option awards, we use the Black-Scholes valuation method, which incorporates the assumptions summarized in the table below:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Weighted-average volatility	29.72%	21.06%	29.28%	21.96%
Dividend yield	4.15%	2.55%	3.53%	2.47%
Expected term (in years)	6.50	5.88	6.04	6.11
Risk-free interest rate	4.06%	4.75%	3.97%	4.67%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the six-month periods ended June 30, 2008 and 2007 were \$12.48 and \$17.23, respectively. The total intrinsic values of options exercised during the six-month periods

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ended June 30, 2008 and 2007 were \$4.7 million, and \$11.5 million, respectively.

A summary of option activity and related information under the Plan for the six-month period ended June 30, 2008 is presented below:

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Options	Number of Options (000)	Weighted Average Exercise Price	Aggregate Intrinsic Value (\$ 000) (1)	Weighted-Average Remaining Contractual Term (Years)
Outstanding at January 1, 2008	4,171	\$ 52.60	\$ 11,769	5.03
Granted	598	54.43	6	
Exercised	(222)	31.52	(4,678)	
Forfeited or expired	(71)	67.37	(3)	
Outstanding at June 30, 2008	4,476	\$ 53.66	\$ 9,416	5.36
Exercisable at June 30, 2008	3,175	\$ 49.13	\$ 9,410	3.94

(1) Includes in-the-money options only

A summary of changes in unvested options and related information for the six-month period ended June 30, 2008 is presented below:

Unvested Options	Number of Options (000)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2008	1,141	\$ 17.29
Granted	598	12.48
Vested	(379)	17.06
Forfeited	(59)	16.58
Unvested at June 30, 2008	1,301	\$ 15.18

The number of options vested during the six-month period ended June 30, 2008 was 379,495. The total fair value of options vested during the six-month period ended June 30, 2008 was \$6.5 million.

Restricted stock is valued at the closing price of the Company's stock on the date of award. During the six-month period ending June 30, 2008, the Compensation, Nominating and Governance Committee (the Committee) of the Company's Board of Directors awarded 169,515 shares of restricted common stock having an intrinsic value of \$7.1 million. During the six-month period ending June 30, 2007, the Committee awarded 132,241 shares of restricted common stock having an intrinsic value of \$10.1 million. The portion of the market value of the restricted stock related to the current service period was recognized as compensation expense during the six-month periods ending June 30, 2008 and 2007. The portion of the market value relating to future service periods was recorded as deferred equity compensation and will be amortized over the remaining vesting period. The compensation expense related to restricted stock for the first six months of 2008 was \$3.1 million compared to \$3.0 million for the same period in 2007. As of June 30, 2008 the unrecognized compensation cost related to restricted shares granted under the plan was \$7.4 million. There were 453,773 restricted shares that had not vested as of June 30, 2008.

As of June 30, 2008, there was \$25.8 million of total unrecognized compensation cost related to unvested stock-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.5 years.

9. **Derivatives and Hedging** - As part of its asset and liability management strategies, the Company uses interest-rate swaps to reduce cash flow variability and to moderate changes in the fair value of financial instruments. In accordance with SFAS 133 the Company recognizes derivatives as assets or liabilities on the balance sheet at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

In accordance with SFAS 133, the Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating each derivative contract as either (i) a fair value hedge which is a hedge of a recognized asset or liability, (ii) a cash flow hedge which hedges a forecasted transaction or the variability of the cash flows to be received or paid related to a recognized asset or liability or (iii) an undesignated hedge, a derivative contract not designated as a hedging instrument whose change in fair value is

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recognized directly in the consolidated statement of income. All derivatives designated as fair value or cash flow hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet. As of June 30, 2008, the Company had derivative contracts with customers with a notional value of \$161.1 million that would be considered undesignated hedges. As of June 30, 2007, the Company did not have any undesignated hedges.

Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in SFAS 133) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the expectation that the hedge will remain effective prospectively.

For cash flow hedges, in which derivatives hedge the variability of cash flows (interest payments) on loans that are indexed to U.S. dollar LIBOR or the Bank's prime interest rate, the effectiveness is assessed prospectively at the inception of the hedge, and prospectively and retrospectively at least quarterly thereafter. Ineffectiveness of the cash flow hedges is measured using the hypothetical derivative method described in Derivatives Implementation Group Issue G7, *Measuring the Ineffectiveness of a Cash Flow Hedge of Interest Rate Risk under Paragraph 30(b) When the Shortcut Method is not Applied*. For cash flow hedges, the effective portion of the changes in the derivatives' fair value is not included in current earnings but is reported as Accumulated other comprehensive income (loss). When the cash flows associated with the hedged item are realized, the gain or loss included in Accumulated other comprehensive income is recognized on the same line in the consolidated statement of income as the hedged item, i.e., included in Interest income on loans and leases. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statement of income.

For fair value hedges, the Company uses interest-rate swaps to hedge the fair value of certain certificates of deposits, subordinated debt and other long-term debt. The certificates of deposit are single maturity, fixed-rate, non-callable, negotiable certificates of deposit that pay interest only at maturity and contain no compounding features. The certificates cannot be redeemed early without penalty except in the case of the holder's death. The interest-rate swaps are executed at the time the deposit transactions are negotiated. The subordinated debt and other long-term debt consists of City National Bank ten-year subordinated with a face value of \$150.0 million due on September 1, 2011, and City National Corporation senior notes with a face value of \$225.0 million due on February 15, 2013. Interest-rate swaps are structured so that all key terms of the swaps match those of the underlying deposit or debt transactions, therefore ensuring no hedge ineffectiveness at inception. The Company ensures that the interest-rate swaps meet the requirements for utilizing the short-cut method in accordance with paragraph 68 of SFAS 133 and maintains appropriate documentation for each interest-rate swap. On a quarterly basis, fair value hedges are analyzed to ensure that the key terms of the hedged items and hedging instruments remain unchanged, and the hedging counterparties are evaluated to ensure that there are no adverse developments regarding counterparty default, therefore ensuring continuous effectiveness. For fair value hedges, the effective portion of the changes in the fair value of derivatives is reflected in current earnings, on the same line in the consolidated statement of income as the related hedged item. For both fair value and cash flow hedges, the periodic accrual of interest receivable or payable on interest rate swaps is recorded as an adjustment to net interest income for the hedged items.

The Company also offers various derivatives products to clients and enters into derivative transactions in due course. These transactions are not linked to specific Company assets or liabilities in the balance sheet or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. They are carried at fair value with changes in fair value recorded as part of Other noninterest income in the income statement. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. The credit component of the fair value of these derivative contracts is calculated using an internal model.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated, or exercised, (iii) a derivative is un-designated as a hedge, because it is unlikely that a forecasted transaction will occur; or (iv) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the

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carrying amount of the hedged asset or liability would be subsequently accounted for in the same manner as other components of the carrying amount of that asset or liability. For interest-earning assets and interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective asset or liability. If a cash flow hedge derivative instrument is terminated or the hedge designation is removed, related amounts reported in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

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10. **Income Taxes** - The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, (FIN 48) on January 1, 2007. Upon adoption, the Company recognized a cumulative effect adjustment of approximately \$28 million, comprised of a \$25.2 million increase to its tax liability and \$2.8 million increase in accrued interest. The adjustment was recorded as a charge to January 1, 2007 retained earnings and the contingent tax reserve.

The Company recognizes accrued interest and penalties relating to unrecognized tax benefits as an income tax provision expense. For the six-month period ended June 30, 2008, the Company accrued approximately \$0.3 million in potential interest and penalties associated with uncertain tax positions. The Company had approximately \$9.2 million and \$8.9 million of accrued interest and penalties as of June 30, 2008 and December 31, 2007, respectively.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Internal Revenue Service (IRS) completed its audits of the Company for the tax years 2002 and 2003 resulting in no material financial statement impact. The Company is currently being audited by the IRS for the years 2006-2007 and by the Franchise Tax Board for the years 1998-2004. The potential financial statement impact, if any, resulting from completion of these audits cannot be determined at this time.

From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. If a tax position which was previously recognized on the financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. As of June 30, 2008, the Company does not have any tax positions which dropped below a more likely than not threshold.

11. **Retirement Plans** - The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. The Company recorded profit sharing contributions expense of \$3.7 million and \$8.5 million for the three and six-month periods ended June 30, 2008, compared to \$4.2 million and \$8.1 million for the three and six-month periods ended June 30, 2007, respectively.

The Company has a Supplemental Executive Retirement Plan (SERP) for one of its executive officers. The SERP meets the definition of a pension plan per FASB Statement No. 87, *Employers Accounting for Pensions*. The Company applies FASB Statement No. 158, *Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), in accounting for the SERP. At June 30, 2008, there was a \$3.6 million unfunded pension liability related to the SERP. Pension expense for the three and six-month periods ended June 30, 2008 was \$0.1 million and \$0.2 million, respectively. Pension expense for the same periods of 2007 was \$0.2 million and \$0.4 million, respectively.

There is also a SERP covering three former executives of the Pacific Bank, which the Company acquired in 2000. As of June 30, 2008 there was an unfunded pension liability for this SERP of \$2.3 million. Expense for both the three month periods ended June 30, 2008 and 2007 was insignificant. Expense for both the six-month periods ended June 30, 2008 and 2007 was \$0.1 million.

The Company does not provide any other post-retirement employee benefits beyond the profit-sharing retirement plan and the SERP.

12. **Guarantees** - In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term guarantee. The maximum liability under the guarantee is \$23 million. The Company does not expect to make any payments under the terms of this guarantee, and accordingly, has not accrued for any portion of it.

13. **Variable Interest Entities** - The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a variable interest entity (VIE) and whether the Company is required to consolidate these entities. None of the Company's investments in VIEs met the criteria for consolidation at June 30, 2008, December 31, 2007, or June 30, 2007. The Company initially records its investment in these entities at cost, which approximates the maximum exposure to loss as a result of its involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of affordable housing investments was \$70.6 million, \$73.6 million and \$67.2 million at June 30, 2008, December 31, 2007, and June 30,

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2007, respectively. Affordable housing VIEs are included in Affordable housing investments in the consolidated balance sheet with associated income reported in Other noninterest income in the consolidated statement of income.

The Company also has ownership interests in several private equity and alternative investment funds that are variable interest entities. The Company is not required to consolidate these VIEs. The Company carries its investment in these entities at cost, which approximates the maximum exposure to loss as a result of its involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income or loss, gains or losses on the sale of fund assets or interest income. The balance in these entities was \$31.8 million, \$28.4 million and \$20.6 million at June 30, 2008, December 31, 2007, and June 30, 2007, respectively, and is included in Other assets in the consolidated balance sheet. Income associated with these investments is reported in Other noninterest income in the consolidated statement of income. The Company reviews these investments at least quarterly for possible other-than-temporary impairment. In addition to the entities described above, Convergent Wealth is the administrative manager of the Barlow Long-Short Equity Fund, a hedge fund that is a variable interest entity. Convergent Wealth is not required to consolidate this entity.

14. **Minority Interests** - The Corporation holds a majority ownership interest in eight investment management and wealth advisory affiliates, an investment affiliate holding company, and a minority interest in one other firm. In general, the management of each affiliate has a significant minority ownership position in their firm and supervises the day-to-day operations of the affiliate. The Corporation's investment in each affiliate is governed by operating agreements and other documents which provide the Corporation certain rights, benefits and obligations. Generally, these affiliate operating agreements direct a percentage of revenue allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to profits to be distributed to the Corporation and other affiliate owners. The Corporation determines the appropriate method of accounting based upon these agreements and the factors contained therein. All majority-owned affiliates have met the criteria for consolidation and are accordingly included in the consolidated financial statements.

For affiliate operations included in the consolidated financial statements, the portion of the income allocated to owners other than the Corporation is included in Minority interest expense in the consolidated statements of income. Minority interest on the consolidated balance sheet includes capital and undistributed income owned by the affiliate minority owners. All material intercompany balances and transactions have been eliminated. The Corporation applies the equity method of accounting to investments where it does not hold a majority equity interest. For equity method investments, the Corporation's portion of income before taxes is included in Trust and investment fees.

Most of the affiliate operating agreements provide the affiliate minority owners the conditional right to require the parent company to purchase a portion of their ownership interests at certain intervals (put rights). These agreements also provide the parent company a conditional right to require affiliate owners to sell their ownership interests to it upon their death, permanent disability or termination of employment, and also provide affiliate owners a conditional right to require the parent company to purchase such ownership interests upon the occurrence of specified events. Management is unable to predict when these specified events might occur. Additionally, in many instances the purchase of interests can be settled using a combination of cash and notes payable, and in all cases the parent company can consent to the transfer of these interests directly to other individuals.

As of June 30, 2008, affiliate minority ownership interests with a redemption value of \$30.6 million could be put to the Company over the next 10 years or longer under the put provisions in the affiliate operating agreements. The terms of the put provisions vary by agreement, but the value of the put is generally based on the application of a growth multiple to distributable revenues. In the event of certain circumstances, including but not limited to death or disability, the parent company may be obligated to purchase some of these shares. This estimate reflects the

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maximum obligation to purchase equity interests in the affiliates that may be put to the parent company by affiliate owners exercising their put rights under normal operating circumstances. The amount and timing of the obligation can be limited by various factors such as our ownership level, first rights of refusal by other minority owners and other factors contained in the affiliate operating agreements. In extraordinary circumstances, including but not limited to death or disability of affiliate minority owners, the estimated purchase obligations could be accelerated or be greater than the amounts shown. There are additional affiliate ownership interests held by affiliate minority owners that are not available to be put to the parent company in the normal course of operations, but that the parent company may be required to purchase under certain circumstances, such as death or disability of the minority shareholder. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations.

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The Bank has two wholly-owned subsidiaries that have issued preferred stock to third-party investors. In 2001, the Bank formed and funded CN Real Estate Investment Corporation (CN), contributing cash and participation interests in certain loans in exchange for 100 percent of the common stock of CN. The net income and assets of CN are eliminated in consolidation for all periods presented. CN sold 33,933 shares of 8.50 percent Series A Preferred Stock to accredited investors for \$3.4 million in 2001, and 6,828 shares of 8.50 percent Series B Preferred Stock for \$6.8 million to accredited investors in 2002, both of which are included in Minority interest. Dividends of \$868,811, which are included in Minority interest expense, will be paid in 2008 and were paid in each of the years 2007, 2006 and 2005 on these preferred stock issues. In 2002, the Bank also converted its former registered investment company to a real estate investment trust called City National Real Estate Investment Corporation II (CNII). The net income and assets of CNII are eliminated in consolidation for all periods presented. During 2002 and 2003 CNII sold shares of 8.50 percent Series A Preferred Stock to accredited investors for \$15.3 million, which is included in Minority Interest. Dividends of \$1,297,780 will be paid in 2008 and were paid in each of the years 2007, 2006 and 2005. Dividends are included in Minority interest expense.

15. **Segment Reporting** - The Company has three reportable segments: Commercial and Private Banking, Wealth Management and Other. The factors considered in determining whether individual operating segments could be aggregated include that the operating segments: (i) offer the same products and services, (ii) offer services to the same types of clients, (iii) provide services in the same manner and (iv) operate in the same regulatory environment. The management accounting process measures the performance of the operating segments based on the Company's management structure and is not necessarily comparable with similar information for other financial services companies. If the management structures and/or the allocation process changes, allocations, transfers and assignments may change.

The Commercial and Private Banking reportable segment is the aggregation of the Commercial and Private Banking, Real Estate, Entertainment, Corporate Banking and Core Branch Banking operating segments. The Commercial and Private Banking segment provides banking products and services, including commercial and mortgage loans, lines of credit, deposits, cash management services, international trade finance and letters of credit to small and medium-sized businesses, entrepreneurs and affluent individuals. This segment primarily serves clients in California, New York and Nevada.

The Wealth Management segment includes the Corporation's investment advisory affiliates and the Bank's Wealth Management Services. The asset management affiliates and the Wealth Management division of the Bank make the following investment advisory and wealth management resources and expertise available to individual and institutional clients: investment management, wealth advisory services, brokerage, estate and financial planning and personal, business, custodial and employee trust services. The Wealth Management segment also advises and makes available mutual funds under the name of CNI Charter Funds. Both the asset management affiliates and the Bank's Wealth Management division provide proprietary and nonproprietary products to offer a full spectrum of investment solutions in all asset classes and investment styles, including fixed-income instruments, mutual funds, domestic and international equities and alternative investments such as hedge funds.

The Other segment includes all other subsidiaries of the Company, the portion of corporate departments, including the Treasury Department and the Asset Liability Funding Center, that have not been allocated to the other segments and inter-segment eliminations for revenue recognized in multiple segments for management reporting purposes.

Business segment earnings are the primary measure of the segment's performance as evaluated by management. Business segment earnings include direct revenue and expenses of the segment as well as corporate and inter-unit allocations. Allocations of corporate expenses, such as data processing and human resources, are calculated based on estimated activity levels for the fiscal year. Inter-unit support groups, such as

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Operational Services, are allocated based on actual expenses incurred. Capital is allocated using a methodology similar to that used for federal regulatory risk-based capital purposes. If applicable, any provision for credit losses is allocated based on various credit factors, including but not limited to, credit risk ratings, ratings migration, charge-offs and recoveries and loan growth. Income taxes are charged on unit income at the Company's overall effective tax rate.

Exposure to market risk is managed in the Company's Treasury department. Interest rate risk is removed from the units comprising the Commercial and Private Banking segment to the Funding Center through a fund transfer pricing (FTP) model. The FTP model records a cost of funds or credit for funds using a combination of matched maturity funding for most assets and liabilities and a blended rate based on various maturities for the remaining assets and liabilities.

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The Bank's investment portfolio and unallocated equity are included in the Other segment. Customer-relationship intangible amortization is charged to the affected operating segments.

Operating results for the segments are discussed in the Segment Results section of Management's Discussion and Analysis. Selected financial information for each segment is presented in the following tables. Commercial and Private Banking includes all revenue and costs from products and services utilized by clients of Commercial and Private Banking, including both revenue and costs for Wealth Management products and services. The revenues and costs associated with Wealth Management products and services that are allocated to Commercial and Private Banking for management reporting purposes are eliminated in the Other segment.

(Dollars in thousands)	City National Corporation Segment Results For the three months ended June 30, 2008				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 157,540	\$ 1,475	\$ (8,847)	\$ 150,168	
Provision for credit losses	35,000			35,000	
Noninterest income	47,325	53,643	(19,504)	81,464	
Depreciation and amortization	1,884	525	3,051	5,460	
Noninterest expense and minority interest	115,265	35,952	(15,159)	136,058	
Income (loss) before income taxes	52,716	18,641	(16,243)	55,114	
Provision (benefit) for income taxes	18,438	6,872	(5,680)	19,630	
Net income (loss)	\$ 34,278	\$ 11,769	\$ (10,563)	\$ 35,484	
Selected Average Balances:					
Loans and leases	\$ 11,974,673	\$ 198	\$ 83,983	\$ 12,058,854	
Total Assets	12,266,195	194,791	3,616,170	16,077,156	
Deposits	10,757,493	60,005	877,200	11,694,698	
Goodwill	327,655	122,057		449,712	
Customer-relationship intangibles, net	15,040	49,039		64,079	

(Dollars in thousands)	For the three months ended June 30, 2007				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 155,902	\$ (23)	\$ (2,975)	\$ 152,904	
Provision for credit losses					
Noninterest income	36,771	49,538	(12,621)	73,688	
Depreciation and amortization	1,597	396	3,129	5,122	
Noninterest expense and minority interest	105,025	35,212	(12,719)	127,518	
Income (loss) before income taxes	86,051	13,907	(6,006)	93,952	
Provision (benefit) for income taxes	31,591	5,413	(2,205)	34,799	
Net income (loss)	\$ 54,460	\$ 8,494	\$ (3,801)	\$ 59,153	
Selected Average Balances:					
Loans and leases	\$ 10,898,571	\$ 6,153	\$ 106,135	\$ 11,010,859	
Total Assets	11,307,535	195,194	3,949,753	15,452,482	
Deposits	11,316,973	64,249	1,188,712	12,569,934	

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Goodwill	326,951	60,011	386,962
Customer-relationship intangibles, net	21,364	45,294	66,658

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City National Corporation
Segment Results
For the six months ended June 30, 2008

(Dollars in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	\$ 313,316	\$ 2,094	\$ (17,077)	\$ 298,333
Provision for credit losses	52,000			52,000
Noninterest income	89,770	108,074	(36,564)	161,280
Depreciation and amortization	3,763	1,068	6,131	10,962
Noninterest expense and minority interest	228,924	74,132	(29,353)	273,703
Income (loss) before income taxes	118,399	34,968	(30,419)	122,948
Provision (benefit) for income taxes	41,150	12,899	(10,572)	43,477
Net income (loss)	\$ 77,249	\$ 22,069	\$ (19,847)	\$ 79,471

Selected Average Balances:				
Loans and leases	\$ 11,796,273	\$ 103	\$ 77,740	\$ 11,874,116
Total Assets	12,094,098	182,619	3,623,614	15,900,331
Deposits	10,708,598	65,430	833,851	11,607,879
Goodwill	328,341	122,669		451,010
Customer-relationship intangibles, net	15,756	49,586		65,342

For the six months ended June 30, 2007

(Dollars in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	\$ 304,468	\$ 485	\$ (4,780)	\$ 300,173
Provision for credit losses				
Noninterest income	71,596	94,014	(25,974)	139,636
Depreciation and amortization	3,157	705	6,260	10,122
Noninterest expense and minority interest	205,523	65,903	(25,118)	246,308
Income (loss) before income taxes	167,384	27,891	(11,896)	183,379
Provision (benefit) for income taxes	61,223	10,811	(4,352)	67,682
Net income	\$ 106,161	\$ 17,080	\$ (7,544)	\$ 115,697

Selected Average Balances:				
Loans and leases	\$ 10,679,057	\$ 3,108	\$ 101,995	\$ 10,784,160
Total Assets	11,079,807	180,021	3,886,289	15,146,117
Deposits	11,017,115	54,870	1,172,944	12,244,929
Goodwill	289,818	48,637		338,455
Customer-relationship intangibles, net	16,165	38,962		55,127

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CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

Dollars in thousands, except per share amounts	At or for the three months ended			Percent change June 30, 2008 from	
	June 30, 2008 (Unaudited)	March 31, 2008	June 30, 2007 Unaudited	March 31, 2008	June 30, 2007
For The Quarter					
Net income	\$ 35,484	\$ 43,987	\$ 59,153	(19)%	(40)%
Net income per common share, basic	0.74	0.92	1.22	(20)	(39)
Net income per common share, diluted	0.73	0.91	1.19	(20)	(39)
Dividends per common share	0.48	0.48	0.46	0	4
At Quarter End					
Assets	\$ 16,339,258	\$ 15,934,032	\$ 15,795,996	3	3
Securities	2,507,807	2,510,611	2,914,822	(0)	(14)
Loans and leases	12,178,330	11,754,865	11,018,834	4	11
Deposits	11,896,337	11,792,369	13,130,405	1	(9)
Shareholders' equity	1,667,647	1,682,328	1,621,350	(1)	3
Book value per common share	34.90	35.14	33.20	(1)	5
Average Balances					
Assets	\$ 16,077,156	\$ 15,723,474	\$ 15,452,482	2	4
Securities	2,453,162	2,524,284	2,943,922	(3)	(17)
Loans and leases	12,058,854	11,689,378	11,010,859	3	10
Deposits	11,694,698	11,521,061	12,569,934	2	(7)
Shareholders' equity	1,694,520	1,690,837	1,603,738	0	6
Selected Ratios					
Return on average assets (annualized)	0.89%	1.13%	1.54%	(21)	(42)
Return on average shareholders' equity (annualized)	8.42	10.46	14.79	(20)	(43)
Corporation's tier 1 leverage	7.89	8.06	7.97	(2)	(1)
Corporation's tier 1 risk-based capital	9.28	9.51	9.82	(2)	(5)
Corporation's total risk-based capital	11.21	11.46	12.28	(2)	(9)
Period-end shareholders' equity to period-end assets	10.21	10.56	10.26	(3)	(0)
Dividend payout ratio, per share	65.40	52.75	38.22	24	71
Net interest margin	4.23	4.26	4.46	(1)	(5)
Efficiency ratio (1)	60.13	61.95	57.69	(3)	4
Asset Quality Ratios					
Nonaccrual loans to total loans and leases	0.87%	0.97%	0.20%	(10)	335
Nonaccrual loans and OREO to total loans and OREO	0.95	1.00	0.20	(5)	375
Allowance for loan and lease losses to total loans and leases	1.52	1.43	1.43	6	6
Allowance for loan and lease losses to nonaccrual loans	174.30	148.10	707.58	18	(75)
Net charge-offs to average loans and leases (annualized)	(0.63)	(0.42)	(0.08)	50	688

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At Quarter End

Assets under management (2)	\$	33,834,281	\$	35,884,765	\$	35,849,921	(6)	(6)
Assets under management or administration (2)		53,509,662		55,854,651		57,328,627	(4)	(7)

(1) The efficiency ratio is defined as noninterest expense excluding OREO expense divided by total revenue (net interest income on a taxable-equivalent basis and noninterest income).

(2) Excludes \$9.0 billion, \$10.1 billion, and \$10.5 billion of assets under management for the asset manager in which the Company holds a minority ownership interest as of June 30, 2008, March 31, 2008, and June 30, 2007, respectively.

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

See Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995, below relating to forward-looking statements included in this report.

RESULTS OF OPERATIONS

Critical Accounting Policies

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified seven policies as being critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. Circumstances and events that differ significantly from those underlying the Company's estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates. The Company's critical accounting policies include those that address the accounting for securities, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, stock-based compensation plans, goodwill and other intangible assets, derivatives and hedging activities, income taxes, and the valuation of financial assets and liabilities reported at fair value. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2007 Annual Report other than the adoption of SFAS 157 effective January 1, 2008. The Company has revised certain assumptions related to the adoption of SFAS 157 as discussed below and in Note 5 to these consolidated financial statements.

The Company, with the concurrence of the Audit & Risk Committee, has reviewed and approved these critical accounting policies, which are further described in Management's Discussion and Analysis and Note 1 (Summary of Significant Accounting Policies) of the Notes to The Consolidated Financial Statements in the Company's Form 10-K as of December 31, 2007. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

There were several new accounting pronouncements in the first six months of 2008. See Note 4 of the Notes to The Consolidated Financial Statements in this Form 10-Q and Note 1 of the Notes to The Consolidated Financial Statements in the Company's Form 10-K as of December 31, 2007 for further details. The Company does not anticipate these pronouncements will have a significant impact on its financial statements.

Overview

The Company recorded net income of \$35.5 million, or \$0.73 per share, for the second quarter of 2008, despite lower short-term interest rates, challenging economic conditions, higher credit costs and a housing market that continues to worsen. In the second quarter of 2008, loans and noninterest income grew again at double-digit rates, and the Company remained well-capitalized. The Company earned \$1.19 per share in the second quarter of 2007, and \$0.91 per share in the first quarter of 2008. City National Bank does not make subprime residential mortgage loans, nor does the Company hold any subprime loans or subprime collateralized debt obligations in its loan or securities portfolios. The Company has seen weakness in its secured and unsecured loans to homebuilders. However, these loans amount to \$559 million, or 5 percent of the Company's \$12.2 billion loan and lease portfolio at June 30, 2008. Substantially all of these residential construction loans to homebuilders have a guarantor or other credit enhancement support. The bank is actively managing each homebuilder loan to ensure that appropriate steps are taken to mitigate risks and loss exposure.

Highlights

- Revenue of \$232 million represented a 2 percent increase from the second quarter of 2007.
- Average loans and leases for the second quarter of 2008 grew to \$12.1 billion, up 10 percent from the second quarter of 2007.

- Average core deposits were stable as compared with the second quarter of 2007 and up 4 percent from the first quarter of 2008.

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- Second-quarter 2008 net income reflects a \$35 million provision for credit losses. The provision reflects management's assessment of the current credit environment and was significantly influenced by current period net charge-offs, the level of criticized assets and, to a lesser extent, loan growth. This provision adds \$17 million to the Company's allowance for loan and lease losses. At June 30, 2008 the Company's allowance for loan and lease losses was \$185.1 million, or 1.52 percent of total loans and leases, compared to \$168.3 million, or 1.43 percent of total loans and leases, at the end of the first quarter of 2008. Total nonperforming assets were \$115.3 million, down from \$117.4 million at March 31, 2008. The Company made no provision for credit losses in the second quarter of 2007.
- The Company's net interest margin averaged 4.23 percent in the second quarter of 2008, compared to 4.26 percent in the first quarter of 2008, and 4.46 percent in the second quarter of 2007.
- Noninterest income totaled \$81.5 million, up 11 percent from the second quarter of last year due to fee revenue generated by wealth management, international banking and cash management services. At June 30, 2008, noninterest income accounted for 35 percent of City National's total revenue.
- The Company remained well capitalized. Its period-end ratio of equity-to-total assets at June 30, 2008 was 10.21 percent, compared to 10.26 percent at June 30, 2007 and 10.56 percent at March 31, 2008.

Outlook

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As disclosed in the Company's press release on second-quarter earnings, the Company expects 2008 to be a profitable year, with earnings per share of between \$3.15 and \$3.40.

The Company's credit reserves and capital position are strong.

Net Interest Income

Fully taxable-equivalent net interest income totaled \$153.3 million for the second quarter of 2008, compared to \$156.2 million for the same period last year and \$151.3 million in the first quarter of 2008.

Dollars in millions	For the three months ended			%	For the three months ended	
	2008	June 30, 2007	2007		Change	March 31, 2008
<i>Average Loans</i>	\$ 12,058.9	\$ 11,010.9	10	10	\$ 11,689.4	3
<i>Average Total Securities</i>	2,453.2	2,943.9	(17)	(17)	2,524.3	(3)
<i>Average Earning Assets</i>	14,694.6	14,128.3	4	4	14,371.3	2
<i>Average Deposits</i>	11,694.7	12,569.9	(7)	(7)	11,521.1	2
<i>Average Core Deposits</i>	10,551.3	10,503.4	0	0	10,192.6	4
<i>Fully Taxable-Equivalent Net Interest Income</i>	153.3	156.2	(2)	(2)	151.3	1
<i>Net Interest Margin</i>	4.23%	4.46%	(5)	(5)	4.26%	(1)

The Company's yield on earning assets for the second quarter of 2008 was 5.42 percent down from 5.93 percent in the first quarter of 2008 and 6.53 percent in the second quarter of 2007. The bank's prime rate was 5.00 percent on June 30, 2008, down from 7.25 percent at December 31, 2007 and 8.25 percent on June 30, 2007. The net interest margin for the second quarter of 2008 was 4.23 percent, compared to 4.26 percent and 4.46 percent for the quarters ended March 31, 2008 and June 30, 2007, respectively. This decline was attributable primarily to short-term interest rate reductions, average loan and lease growth and lower average demand deposits.

Second-quarter average loan and lease balances reached \$12.1 billion, an increase of 10 percent over the same period last year and 3 percent from the first quarter of 2008. The commercial loan portfolio grew 9 percent over the second quarter of 2007 and 5 percent from the first quarter of 2008. Residential mortgage loans increased 10 percent from the second quarter of last year and 3 percent from the first quarter of 2008. Commercial real estate mortgage loans were 4 percent and 2 percent higher than the second quarter of 2007 and first quarter of 2008, respectively. Real estate construction

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loans outstanding increased 19 percent from the same period a year ago and did not change significantly from the first quarter of 2008.

The Company's average deposits totaled \$11.7 billion in the second quarter of 2008, a 7 percent decrease from the second quarter of 2007 due to a planned runoff of higher-cost time deposits, and a 2 percent increase from the first quarter of 2008 due to seasonal variations.

As part of its long-standing asset and liability management strategies, the Company uses plain vanilla interest rate swaps to hedge loans, deposits, and borrowings. The notional value of these swaps was \$0.9 billion at June 30, 2008, down from \$1.1 billion at June 30, 2007, and unchanged from December 31, 2007. The following table presents the impact of fair value and cash-flow hedges on net interest income:

(Dollars in millions)	Second Quarter 2008		Fourth Quarter 2007		Second Quarter 2007	
Fair Value Hedges	\$	1.0	\$	0.0	\$	(0.0)
Cash Flow Hedges		1.5		(0.1)		(1.5)
Total	\$	2.5	\$	(0.1)	\$	(1.5)

Recent decreases in interest rates are expected to reduce interest income on variable rate loans. This reduction will be partially offset by the income from existing swaps qualifying as cash flow hedges. The net interest accrual on these swaps over the next 12 months is projected to be \$3.0 million based on current market conditions. Both the income for the quarter and the projected income for the next 12 months should be viewed in context with the benefit the Company has received from increases in interest rates in the past and the decline in income the Company will experience from decreases in interest rates.

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. The following table presents the components of net interest income on a fully taxable-equivalent basis for the three and six month periods ended June 30, 2008 and 2007.

Table of Contents**Net Interest Income Summary**

Dollars in thousands	For the three months ended June 30, 2008			For the three months ended June 30, 2007		
	Average Balance	Interest income/ expense (1)(4)	Average interest rate	Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	\$ 4,675,080	\$ 61,606	5.30%	\$ 4,274,653	\$ 78,495	7.37%
Commercial real estate mortgages	2,009,201	32,490	6.50	1,932,492	35,483	7.36
Residential mortgages	3,271,150	45,591	5.57	2,974,866	40,817	5.49
Real estate construction	1,469,469	19,856	5.43	1,233,667	27,308	8.88
Equity lines of credit	470,365	5,208	4.45	404,318	7,769	7.71
Installment	163,589	2,390	5.88	190,863	3,574	7.51
Total loans and leases (3)	12,058,854	167,141	5.57	11,010,859	193,446	7.05
Due from banks - interest-bearing	94,843	528	2.24	89,463	535	2.40
Federal funds sold and securities						
purchased under resale agreements	9,216	58	2.54	24,313	319	5.27
Securities available-for-sale	2,351,412	28,738	4.89	2,871,725	33,906	4.72
Trading account securities	101,750	416	1.65	72,197	942	5.23
Other interest-earning assets	78,502	1,024	5.25	59,752	948	6.36
Total interest-earning assets	14,694,577	197,905	5.42	14,128,309	230,096	6.53
Allowance for loan and lease losses	(163,161)			(162,022)		
Cash and due from banks	386,449			444,779		
Other non-earning assets	1,159,291			1,041,416		
Total assets	\$ 16,077,156			\$ 15,452,482		
Liabilities and Shareholders						
Equity						
Interest-bearing deposits (2)						
Interest checking accounts	\$ 866,959	\$ 1,511	0.70%	\$ 803,839	\$ 1,114	0.56%
Money market accounts	3,737,960	15,830	1.70	3,720,691	28,763	3.10
Savings deposits	132,972	92	0.28	148,860	180	0.48
Time deposits - under \$100,000	207,427	1,490	2.89	274,079	2,591	3.79
Time deposits - \$100,000 and over	1,143,356	8,368	2.94	2,066,534	24,786	4.81
Total interest-bearing deposits	6,088,674	27,291	1.80	7,014,003	57,434	3.28
Federal funds purchased and securities sold under repurchase						
agreements	1,262,681	7,612	2.42	486,192	6,190	5.11
Other borrowings	1,193,360	8,636	2.91	611,824	9,297	6.09
Total interest-bearing liabilities	8,544,715	43,539	2.05	8,112,019	72,921	3.61
Noninterest-bearing deposits	5,606,024			5,555,931		
Other liabilities	231,897			180,794		
Shareholders equity	1,694,520			1,603,738		
Total liabilities and shareholders equity	\$ 16,077,156			\$ 15,452,482		
Net interest spread			3.37%			2.92%
Fully taxable-equivalent net interest and dividend income		\$ 154,366			\$ 157,175	
Net interest margin			4.23%			4.46%
		1,024			948	

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Less: Dividend income included in
other income

Fully taxable-equivalent net interest income	\$ 153,342	\$ 156,227
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- (1) Net interest income is presented on a fully taxable-equivalent basis.
 - (2) Certain prior period balances have been reclassified to conform to the current period presentation.
 - (3) Includes average nonaccrual loans of \$109,652 and \$22,753 for 2008 and 2007, respectively.
 - (4) Loan income includes loan fees of \$4,119 and \$4,407 for 2008 and 2007, respectively.

Table of Contents**Net Interest Income Summary**

Dollars in thousands	For the six months ended June 30, 2008			For the six months ended June 30, 2007		
	Average Balance	Interest income/ expense (1)(4)	Average interest rate	Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans						
Commercial	\$ 4,565,364	\$ 131,150	5.78%	\$ 4,210,470	\$ 152,646	7.31%
Commercial real estate mortgages	1,992,366	66,073	6.67	1,846,087	67,523	7.38
Residential mortgages	3,224,993	90,147	5.59	2,930,323	79,791	5.45
Real estate construction	1,466,885	43,419	5.95	1,207,268	52,734	8.81
Equity lines of credit	454,330	11,370	5.03	399,164	15,400	7.78
Installment	170,178	5,242	6.19	190,848	7,168	7.57
Total loans and leases (3)	11,874,116	347,401	5.88	10,784,160	375,262	7.02
Due from banks - interest-bearing	86,501	1,051	2.44	80,994	1,016	2.53
Federal funds sold and securities purchased under resale agreements	8,447	122	2.90	19,114	503	5.30
Securities available-for-sale	2,398,702	58,137	4.85	2,893,731	68,166	4.71
Trading account securities	90,021	1,022	2.28	63,286	1,757	5.60
Other interest-earning assets	75,166	2,050	5.48	53,932	1,654	6.19
Total interest-earning assets	14,532,953	409,783	5.67	13,895,217	448,358	6.51
Allowance for loan and lease losses	(163,924)			(159,738)		
Cash and due from banks	382,752			433,733		
Other non-earning assets	1,148,550			976,905		
Total assets	\$ 15,900,331			\$ 15,146,117		
Liabilities and Shareholders						
Equity						
Interest-bearing deposits (2)						
Interest checking accounts	\$ 844,924	\$ 2,924	0.70%	\$ 776,616	\$ 1,995	0.52%
Money market accounts	3,674,404	38,013	2.08	3,570,873	53,894	3.04
Savings deposits	133,775	214	0.32	151,853	359	0.48
Time deposits - under \$100,000	213,823	3,427	3.22	253,113	4,934	3.93
Time deposits - \$100,000 and over	1,235,931	21,543	3.51	1,969,555	46,576	4.77
Total interest-bearing deposits	6,102,857	66,121	2.18	6,722,010	107,758	3.23
Federal funds purchased and securities sold under repurchase agreements	1,201,929	17,242	2.88	533,673	13,746	5.19
Other borrowings	1,156,194	19,763	3.44	605,675	18,389	6.12
Total interest-bearing liabilities	8,460,980	103,126	2.45	7,861,358	139,893	3.59
Noninterest-bearing deposits	5,505,022			5,522,919		
Other liabilities	241,634			200,401		
Shareholders equity	1,692,695			1,561,439		
Total liabilities and shareholders equity	\$ 15,900,331			\$ 15,146,117		
Net interest spread			3.22%			2.92%
Fully taxable-equivalent net interest and dividend income		\$ 306,657			\$ 308,465	
Net interest margin			4.24%			4.48%
		2,049			1,654	

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Less: Dividend income included in
other income

Fully taxable-equivalent net interest
income

\$ 304,608

\$ 306,811

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- (1) Net interest income is presented on a fully taxable-equivalent basis.
 - (2) Certain prior period balances have been reclassified to conform to the current period presentation.
 - (3) Includes average nonaccrual loans of \$104,673 and \$21,969 for 2008 and 2007, respectively.
 - (4) Loan income includes loan fees of \$8,816 and \$8,283 for 2008 and 2007, respectively.

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume), and mix of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income on a fully taxable-equivalent basis between the second quarter and first three and six months of 2008 and 2007, as well as between the second quarter and first three and six months of 2007 and 2006.

Changes In Net Interest Income

Dollars in thousands	For the three months ended June 30 2008 vs. 2007			For the three months ended June 30 2007 vs. 2006		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Loans and leases	\$ 17,110	\$ (43,415)	\$ (26,305)	\$ 17,102	\$ 8,719	\$ 25,821
Securities available-for-sale	(6,339)	1,171	(5,168)	(7,647)	1,368	(6,279)
Due from banks - interest-bearing	31	(37)	(6)	250	38	288
Trading account securities	285	(811)	(526)	288	(203)	85
Federal funds sold and securities purchased under resale						
agreements	(142)	(119)	(261)	(341)	58	(283)
Other interest-earning assets	262	(186)	76	199	124	323
Total interest-earning assets	11,207	(43,397)	(32,190)	9,851	10,104	19,955
Interest paid on:						
Interest checking deposits	95	302	397	33	569	602
Money market deposits	132	(13,066)	(12,934)	2,138	8,848	10,986
Savings deposits	(18)	(69)	(87)	(25)	43	18
Time deposits	(9,295)	(8,224)	(17,519)	5,650	3,651	9,301
Other borrowings	12,020	(11,260)	760	(1,366)	1,174	(192)
Total interest-bearing liabilities	2,934	(32,317)	(29,383)	6,430	14,285	20,715
	\$ 8,273	\$ (11,080)	\$ (2,807)	\$ 3,421	\$ (4,181)	\$ (760)

Dollars in thousands	For the six months ended June 30, 2008 vs. 2007			For the six months ended June 30, 2007 vs. 2006		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Loans and leases	\$ 36,149	\$ (64,008)	\$ (27,859)	\$ 32,987	\$ 18,111	\$ 51,098
Securities available-for-sale	(11,972)	1,944	(10,028)	(19,448)	3,544	(15,904)
Due from banks - interest-bearing	70	(36)	34	405	208	613
Trading account securities	562	(1,297)	(735)	424	(93)	331
Federal funds sold and securities purchased under resale						
agreements	(211)	(170)	(381)	(329)	88	(241)
Other interest-earning assets	601	(205)	396	207	219	426
Total interest-earning assets	25,199	(63,772)	(38,573)	14,246	22,077	36,323
Interest paid on:						
Interest checking deposits	189	741	930	(8)	1,040	1,032
Money market deposits	1,527	(17,408)	(15,881)	2,080	18,929	21,009
Savings deposits	(38)	(107)	(145)	(50)	84	34
Time deposits	(15,207)	(11,486)	(26,693)	12,452	9,251	21,703

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Other borrowings	23,654	(18,784)	4,870	(6,338)	4,461	(1,877)
Total interest-bearing liabilities	10,125	(47,044)	(36,919)	8,136	33,765	41,901
	\$ 15,074	\$ (16,728)	\$ (1,654)	\$ 6,110	\$ (11,688)	\$ (5,578)

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The impact of interest rate swaps, which affect interest income on loans and leases and interest expense on deposits and borrowings, is included in rate changes.

Provision for Credit Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the income statement to adjust the allowance and the reserve for off-balance sheet credit commitments to the level deemed appropriate by management, as determined through application of the Company's allowance methodology procedures (see "Critical Accounting Policies" on page 29 of the Company's Form 10-K for the year ended December 31, 2007).

The Company recorded a \$35 million provision for credit losses in the quarter ended June 30, 2008. The provision for credit losses primarily reflects management's ongoing assessment of the current credit environment and was significantly influenced by current period net charge-offs, the level of criticized assets, and to a lesser extent, growth in loans and leases and credit commitments. For the three months ended June 30, 2008, December 31, 2007, and June 30, 2007, net charge-offs totaled \$18.9 million, \$3.9 million, and \$2.3 million, respectively. For these same periods, nonaccrual loans at period end totaled \$106.2 million, \$75.6 million, and \$22.3 million, respectively.

Noninterest Income

Second-quarter 2008 noninterest income of \$81.5 million was 11 percent higher than the second quarter of 2007 due primarily to continuing growth of the Company's wealth management, international and cash management revenues. Excluding the acquisition of Convergent Wealth Advisors ("Convergent Wealth"), second quarter noninterest income grew 6 percent from the same period last year. Noninterest income was 35 percent of total revenue in the second quarter of 2008, compared to 33 percent for the second quarter of 2007 and 35 percent for the first quarter of 2008.

Wealth Management

Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. A portion of these fees are based on the market valuations of client assets managed, administered or held in custody. Changes in market values are reflected in fee income primarily on a trailing-quarter basis. The remaining portion of these fees, such as those for estate and financial planning services, is based on the specific service provided or may be fixed fees. Trust and investment fees decreased 2 percent over the second quarter of 2007, primarily due to general market conditions.

Assets under management include assets for which the Company makes investment decisions on behalf of its clients and assets under advisement for which the Company receives advisory fees from its clients. Assets under administration are assets the Company holds in a fiduciary capacity or for which it provides non-advisory services. Assets under direct management fell 6 percent from the same period last year, largely as the result of general market conditions and in part to an anticipated shift of funds by the former owner of City National's institutional

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asset management affiliate to its in-house investment manager. Not including the acquisition of Convergent Wealth the Company's trust and investment fee income in the second quarter of 2008 decreased 15 percent from the same period last year.

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Dollars in millions	At or for the three months ended June 30,			% Change	At or for the three months ended March 31, 2008	
	2008	2007				% Change
<i>Trust and Investment Fee Revenue</i>	\$ 34.2	\$ 34.8	(2)	\$ 36.3	(6)	
<i>Brokerage and Mutual Fund Fees</i>	18.7	14.0	34	17.4	7	
<i>Assets Under Management (1)</i>	33,834.3	35,849.9	(6)	35,884.8	(6)	
<i>Total Assets Under Management or Administration (1)</i>	53,509.7	57,328.6	(7)	55,854.7	(4)	

(1) Excludes \$9.0 billion, \$10.5 billion, and \$10.1 billion of assets under management for an asset manager in which City National held a minority ownership interest as of June 30, 2008, June 30, 2007, and March 31, 2008, respectively.

Other Noninterest Income

Cash management and deposit transaction fees for the second quarter of 2008 grew 44 percent from the same period last year and 10 percent from the first quarter of 2008, due largely to the addition of new clients, the sale of additional services to existing clients and a decline in the earnings credit rate on compensating deposit balances, thus increasing fee income.

International service fees for the second quarter of 2008 grew 8 percent from the same period last year reflecting increased demand for both foreign exchange services and letters of credit, and increased 6 percent from the first quarter of 2008. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection and other fee income. International services fees are recognized when earned, except for the fees on commercial and standby letters of credit, which are generally deferred and recognized in income over the terms of the letters of credit.

Other service charges and fees for the second quarter of 2008 amounted to \$8.2 million, up \$0.9 million or 13 percent, from the same period one year ago. These fees were up \$2.6 million or 46 percent from the first quarter of 2008 primarily due to higher debit and credit card fees, higher miscellaneous loan fees and a \$1.1 million correction of prior period income on wealth management securities held in inventory.

Noninterest and Minority Interest Expense

Second-quarter 2008 noninterest and minority interest expense amounted to \$141.5 million, up 7 percent from the same period last year but down 1 percent from the first quarter of 2008. The increase from last year was due in part to \$1.4 million of additional expense for FDIC assessments. Excluding the higher FDIC assessments, the Company's second quarter 2008 noninterest expense grew 5.6 percent from the same period last year.

Staffing expenses for the quarter amounted to \$87.5 million, up 8 percent from one year ago, as a result of the acquisition of Convergent Wealth, salary increases and higher stock-based compensation expense. Excluding Convergent Wealth, staffing expenses are up 6 percent over the same period last year. Staffing expenses were down 3 percent from the first quarter of 2008.

Legal and professional fees fell 12 percent from the second quarter of 2007 and the first quarter of 2008, due to lower litigation expenses and customer-related professional fees.

Minority interest expense consists of preferred stock dividends paid by the Bank's real estate investment trust subsidiaries as well as the minority ownership share of the earnings of the Corporation's majority-owned investment advisory affiliates. See Note 14 to the Unaudited Financial Statements for additional information about minority interest expense.

The Company's second-quarter efficiency ratio was 60.13 percent compared with 57.69 percent for the second quarter of 2007, and 61.95 percent for the first quarter of 2008. The increase from the second quarter of 2007 was due primarily to the continued expansion of the Bank's fee-based businesses, including the acquisition of Convergent Wealth.

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Share-Based Compensation Expense

The Company applies SFAS 123R in accounting for stock option plans. A Black-Scholes valuation methodology is used to determine the fair value of options granted.

The compensation cost charged against income for all share-based awards was \$3.7 million and \$7.2 million for the three and six-month periods ended June 30, 2008, compared to \$3.7 million and \$7.1 million for the three and six-month periods ended June 30, 2007, respectively. The Company received \$7.0 million and \$15.8 million in cash from the exercise of stock options during the six months ended June 30, 2008 and June 30, 2007, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was \$1.3 million and \$6.2 million for the six months ended June 30, 2008 and 2007, respectively. See Note 8 to the Unaudited Financial Statements for a description of the stock option plan and method of estimating the fair value of option awards.

As of June 30, 2008 there was \$25.8 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.5 years. The total number of shares vested during the six months ended June 30, 2008 was 379,495.

Segment Results

Our reportable segments are Commercial and Private Banking, Wealth Management and Other. For a more complete description of our segments, including summary financial information, see Note 15 to the Unaudited Financial Statements.

Commercial and Private Banking

Net income of \$34.3 million in the second quarter of 2008 for the Commercial and Private Banking segment decreased \$20.2 million, or 37 percent, from the \$54.5 million for the second quarter of 2007 primarily as a result of the \$35 million provision for credit losses. For the first six months of 2008, net income decreased to \$77.2 million, a decline of 27 percent compared to the same period in 2007. The decrease is due to the provision for credit losses in 2008. Total revenue of \$204.9 million for the second quarter of 2008 increased 6 percent over the second quarter of 2007. Year-to-date revenue for the segment increased 7 percent to \$403.1 million compared to the prior year. The increase in revenue for the quarter and year-to-date compared with the prior year periods was driven by strong loan growth, primarily in commercial and industrial and residential mortgage loans, lower deposit costs and increases in fee income. Average loans were \$12.0 billion in the second quarter of 2008, up 10 percent from \$10.9 billion in the second quarter of 2007. Average deposits were \$10.8 billion in the second quarter of 2008, a decrease of 5 percent from the same period last year. Noninterest income increased 29 percent in the second quarter of 2008 compared to the second quarter of 2007, and 25 percent for the first six months of 2008 compared to the same period of 2007. The increase is primarily due to higher cash management and deposit transaction fees and higher international services fees. Noninterest expense, including depreciation, was \$10.5 million, or 10 percent, higher for the three months ended June 30, 2008 compared to the same period in 2007. Year-to-date noninterest expense was \$24.0 million, or 11 percent higher in 2008 than in 2007.

Wealth Management

The Wealth Management segment had net income of \$11.8 million in the second quarter of 2008 an increase of \$3.3 million, or 39 percent, from the \$8.5 million recorded in second quarter of 2007. Net income increased to \$22.1 million for the six months ended June 30, 2008, compared to \$17.1 million for the same period in 2007. Total revenue of \$55.1 million and \$110.2 million for the three and six-months ended June 30, 2008, increased by 11 percent and 17 percent over the comparable periods in 2007. Noninterest expense, including depreciation, was \$0.9 million, or 2 percent, higher during the second quarter of 2008 compared to the second quarter of 2007. Year-to-date noninterest expense was \$8.6 million, or 13 percent, higher in 2008 than in 2007. The increase in revenue and noninterest expense for the quarter and year-to-date is due to the acquisition of Convergent Wealth.

Other

Total revenue for the Other segment declined \$12.8 million, or 82 percent, in the second quarter of 2008, compared to the prior year. Year-to-date, total revenue declined \$22.9 million, or 74 percent from the prior year. Net income for the

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Other segment decreased \$6.8 million for the second quarter of 2008 compared to the second quarter of 2007, and \$12.3 million, for the six months ended June 30, 2008, compared to the same period in 2007. The declines are related to higher net funding costs in the Asset Liability Funding Center and an increase in inter-segment revenue, which is eliminated in this segment.

Income Taxes

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The effective tax rate for the second quarter of 2008 was 35.6 percent, compared to 37.0 percent in the second quarter of last year. The effective tax rate for the first six months of 2008 was 35.4 percent compared to 36.9 percent for the same period in 2007. The lower effective tax rate for second-quarter 2008 is attributable to a decrease in pretax income along with a disproportionate decrease in permanent tax benefits. The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships and tax-exempt income on municipal bonds and bank-owned life insurance.

The Company recognizes accrued interest and penalties relating to unrecognized tax benefits as an income tax provision expense. For the six-month period ended June 30, 2008, the Company recognized approximately \$261,000 in interest and penalties. The Company had approximately \$9.2 million and \$8.9 million of accrued interest and penalties as of June 30, 2008 and December 31, 2007, respectively.

The Internal Revenue Service (IRS) has completed its audits of the Company for the years 2002-2003 resulting in no material financial statement impact. The Company is currently being audited by the IRS for the years 2006-2007 and by the Franchise Tax Board for the years 1998-2004. The potential financial statement impact, if any, resulting from the completion of the audits is not determinable at this time.

BALANCE SHEET ANALYSIS

Total assets were \$16.3 billion at June 30, 2008 compared to \$15.8 billion at June 30, 2007, and \$15.9 billion at March 31, 2008. Average assets for the second quarter of 2008 were \$16.1 billion compared to \$15.5 billion for the second quarter of 2007.

Total average interest-earning assets for the second quarter of 2008 were \$14.7 billion, compared to \$14.1 billion for the second quarter of 2007 and \$14.4 billion for the first quarter of 2008.

Securities

Comparative period-end securities portfolio balances are presented below:

Securities Available-for-Sale

Dollars in thousands	June 30, 2008		December 31, 2007		June 30, 2007	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
U.S. Treasury	\$ 55,753	\$ 55,793	\$ 45,106	\$ 45,228	\$ 69,327	\$ 69,338
Federal Agency	29,927	30,256	50,996	51,042	261,236	258,114
CMOs	984,872	963,002	1,041,692	1,027,439	1,145,737	1,106,344
Mortgage-backed	690,284	675,990	822,193	807,534	927,022	885,195
State and Municipal	378,678	378,569	391,790	395,455	387,430	382,992
Other	82,424	75,316	32,870	31,001		
Total debt securities	2,221,938	2,178,926	2,384,647	2,357,699	2,790,752	2,701,983
Equity securities	127,094	124,056	100,256	104,956	88,984	95,383

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Total securities	\$	2,349,032	\$	2,302,982	\$	2,484,903	\$	2,462,655	\$	2,879,736	\$	2,797,366
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At June 30, 2008, securities available-for-sale totaled \$2.3 billion, a decrease of \$0.5 billion from \$2.8 billion at June 30, 2007. At June 30, 2008, the portfolio had a net unrealized loss of \$46.1 million compared with net unrealized losses of \$22.2 million at December 31, 2007 and \$82.4 million at June 30, 2007. Management has determined that there is no other-than-temporary impairment of securities available-for-sale as of June 30, 2008, as the unrealized losses are due to changes in interest rates and the Company has the ability and intent to hold the securities until their value recovers. The

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mortgage-backed securities and collateralized mortgage obligations (CMOs) in the Company's portfolio are all issued by GNMA, FNMA, Freddie Mac or AAA-rated private label issues.

The average duration of total available-for-sale securities at June 30, 2008 was 3.6 years. This duration compares with 3.4 years at December 31, 2007 and 3.3 years at June 30, 2007. Duration provides a measure of fair value sensitivity to changes in interest rates. The average duration is within the investment guidelines set by the Company's Asset/Liability Committee and the interest-rate risk guidelines set by the Board of Directors. See "Asset/Liability Management" for a discussion of the Company's interest rate position.

The following table provides the expected remaining maturities and yields (on a fully taxable-equivalent basis) of debt securities included in the securities portfolio as of June 30, 2008, except for mortgage-backed securities which are allocated according to final maturities. Final maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to pre-tax equivalents based on the marginal corporate federal tax rate of 35 percent.

Debt Securities Available-for-Sale

Dollars in thousands	One year or less		Over 1 year thru 5 years		Over 5 years thru 10 years		Over 10 years		Total	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
U.S. Treasury	\$ 35,318	1.98	\$ 20,475	2.63					\$ 55,793	2.22
Federal Agency			30,256	4.01					30,256	4.01
CMOs	64,673	5.36	749,245	4.56	149,084	5.43			963,002	4.75
Mortgage-backed	6,121	3.70	505,158	4.23	154,543	4.59	10,168	5.58	675,990	4.33
State and Municipal	41,571	4.30	108,849	3.91	165,055	3.85	63,094	3.99	378,569	3.94
Other			11,378	6.37	56,314	5.69	7,624	5.80	75,316	5.81
Total debt securities	\$ 147,683	4.18	\$ 1,425,361	4.37	\$ 524,996	4.72	\$ 80,886	4.36	\$ 2,178,926	4.44
Amortized cost	\$ 150,634		\$ 1,446,931		\$ 541,310		\$ 83,063		\$ 2,221,938	

Dividend income included in interest income on securities in the Unaudited Consolidated Statements of Income for the second quarter of 2008 and 2007 was \$2.2 million and \$1.8 million, respectively. Dividend income included in interest income on securities in the Unaudited Consolidated Statements of Income for the first six months of 2008 and 2007 was \$4.4 million and \$3.1 million, respectively.

Loan and Lease Portfolio

A comparative period-end loan and lease table is presented below:

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Dollars in thousands	Loans and Leases		
	June 30, 2008	December 31, 2007	June 30, 2007
Commercial	\$ 4,398,086	\$ 4,193,436	\$ 3,932,672
Commercial real estate mortgages	2,016,090	1,954,539	1,947,218
Residential mortgages	3,319,741	3,176,322	3,009,546
Real estate construction	1,483,193	1,429,761	1,309,322
Equity lines of credit	495,334	432,513	409,505
Installment	160,665	178,195	185,112
Lease financing	305,221	265,872	225,459
Total loans and leases, gross	12,178,330	11,630,638	11,018,834
Less allowance for loan and lease losses	(185,070)	(168,523)	(157,849)
Total loans and leases, net	\$ 11,993,260	\$ 11,462,115	\$ 10,860,985

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Total gross loans and leases at June 30, 2008 were 5 percent and 11 percent higher than at December 31, 2007 and June 30, 2007, respectively. The growth from the second quarter of 2007 was primarily in commercial and residential mortgages and is due primarily to organic growth.

As reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the federal banking regulatory agencies issued final guidance on December 6, 2006 on risk management practices for financial institutions with high or increasing concentrations of commercial real estate (CRE) loans on their balance sheets. The regulatory guidance provides for an increased level of regulatory oversight and monitoring for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific type of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution's total risk-based capital and both total CRE loans represent 300 percent or more of the institution's total risk-based capital and the institution's CRE loan portfolio and has increased 50 percent or more within the last 36 months. As of June 30, 2008, total loans for construction, land development and other land represented 100 percent of total risk-based capital; total CRE loans represented 207 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE increased 62 percent over the last 36 months.

The following table presents information concerning nonaccrual loans, Other Real Estate Owned (OREO), loans which are contractually past due 90 days or more as to interest or principal payments and still accruing, and restructured loans. Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain, regardless of the time period involved. The \$9.1 million balance of OREO at June 30, 2008 includes two projects: the Bank's share of a participated loan on a condominium complex and three single family homes. Negotiations are in progress with a prospective buyer on the sale of the condominium complex and escrow closed on the sale of the three single family homes in July 2008. The Company had no OREO at December 31, 2007 or June 30, 2007.

The following table provides information on nonaccrual loans and OREO as of June 30, 2008, December 31, 2007, and June 30, 2007:

Dollars in thousands	Nonaccrual Loans and OREO		
	June 30, 2008	December 31, 2007	June 30, 2007
Nonaccrual loans:			
Commercial	\$ 16,444	\$ 17,103	\$ 3,998
Commercial real estate mortgages	5,903	1,621	4,732
Residential mortgages	549	387	378
Real estate construction	81,120	55,632	12,566
Equity lines of credit	1,398	679	452
Installment	763	139	182
Total	106,177	75,561	22,308
OREO	9,113		
Total nonaccrual loans and OREO	\$ 115,290	\$ 75,561	\$ 22,308
Total nonaccrual loans as a percentage of total loans and leases	0.87%	0.65%	0.20%
Total nonaccrual loans and OREO as a percentage of total loans and OREO	0.95	0.65	0.20
Allowance for loan and lease losses to total loans and leases	1.52	1.45	1.43
Allowance for loan and lease losses to nonaccrual loans	174.30	223.03	707.58

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Loans past due 90 days or more on accrual status:

Commercial	\$		\$		\$
Other		2		1	
Total	\$	2	\$	1	\$

At June 30, 2008, there were \$100.6 million of impaired loans included in nonaccrual loans, with an allowance allocation of \$15.4 million. On a comparable basis, at December 31, 2007 there were \$71.4 million of impaired loans, which had an allowance allocation of \$8.4 million, while at June 30, 2007 impaired loans were \$19.2 million with an allowance

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allocation of \$1.0 million. The assessment for impairment occurs when and while such loans are on nonaccrual, or when the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Impaired loans with commitments of less than \$500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment allowance is recognized by creating or adjusting the existing allocation of the allowance for loan and lease losses. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

The following table summarizes activity in nonaccrual loans and OREO for the three and six months ended June 30, 2008 and 2007:

Changes in Nonaccrual Loans

Dollars in thousands	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Balance, beginning of period	\$ 113,623	\$ 23,417	\$ 75,561	\$ 20,883
Loans placed on nonaccrual	26,761	3,745	96,846	10,599
Loans from acquisitions				50
Charge-offs	(8,056)	(3,450)	(19,865)	(3,627)
Loans returned to accrual status				(120)
Repayments (including interest applied to principal)	(17,351)	(1,404)	(33,753)	(5,477)
Transferred to OREO	(8,800)		(12,612)	
Balance, end of period	\$ 106,177	\$ 22,308	\$ 106,177	\$ 22,308

In addition to loans in nonaccrual status disclosed above, management has also identified \$98.8 million of credits to 39 borrowers where known information about the borrowers causes management to have doubts about the ability of the borrowers to comply with the loan repayment terms. However, the inability of the borrowers to comply with the repayment terms was not sufficiently probable to place the loans on nonaccrual status at June 30, 2008, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. Of the potential problem loans identified, most are extensions of credit to borrowers that develop, construct and/or sell single-family residences. Potential problem loans were \$70.7 million at March 31, 2008 and \$67.9 million as of December 31, 2007.

Management's classification of credits as nonaccrual or potential problem loans does not necessarily indicate that the principal is uncollectible in whole or in part.

Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments

At June 30, 2008, the allowance for loan and lease losses was \$185.1 million or 1.52 percent of outstanding loans and leases, and the reserve for off-balance sheet credit commitments was \$24.2 million. The process used in the determination of the adequacy of the reserve for off-balance sheet credit commitments is consistent with the process for the allowance for loan and lease losses.

The following tables summarize the activity in the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments for the three and six months ended June 30, 2008 and 2007:

Table of Contents**Changes in Allowance for Loan and Lease Losses**

Dollars in thousands	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Loans and leases outstanding	\$ 12,178,330	\$ 11,018,834	\$ 12,178,330	\$ 11,018,834
Average amount of loans and leases outstanding	\$ 12,058,854	\$ 11,010,860	\$ 11,874,116	\$ 10,784,161
Balance of allowance for loan and lease losses, beginning of period	\$ 168,278	\$ 161,005	\$ 168,523	\$ 155,342
Loans charged-off:				
Commercial	(6,400)	(3,766)	(8,398)	(5,415)
Residential first mortgage				
Commercial real estate mortgage			12	
Real estate construction	(13,208)		(23,440)	
Equity lines of credit			(239)	
Installment	(22)	(66)	(108)	(119)
Total loans charged-off	(19,630)	(3,832)	(32,173)	(5,534)
Recoveries of loans previously charged-off:				
Commercial	666	1,547	1,091	4,444
Residential first mortgage	10		18	
Commercial real estate mortgage				
Real estate construction	12	17	27	35
Equity lines of credit				
Installment	26	6	34	32
Total recoveries	714	1,570	1,170	4,511
Net loans (charged-off)/recovered	(18,916)	(2,262)	(31,003)	(1,023)
Provision for credit losses	35,000		52,000	
Transfers from (to) reserve for off-balance sheet credit commitments	708	(894)	(4,450)	(983)
Allowance of acquired institution				4,513
Balance, end of period	\$ 185,070	\$ 157,849	\$ 185,070	\$ 157,849
Net charge-offs to average loans and leases (annualized)	(0.63)%	(0.08)%	(0.53)%	(0.02)%
Ratio of allowance for loan and lease losses to total period-end loans and leases	1.52%	1.43%	1.52%	1.43%

Changes in Reserve for Off-balance Sheet Credit Commitments

Dollars in thousands	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Balance at beginning of period	\$ 24,862	\$ 17,005	\$ 19,704	\$ 16,424
Recovery of prior charge-off		(67)		(67)
Reserve of acquired institution				492
Transfers (to) from allowance	(708)	894	4,450	983
Balance at end of period	\$ 24,154	\$ 17,832	\$ 24,154	\$ 17,832

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The composition of other assets is as follows:

Other Assets

Dollars in thousands	June 30, 2008	December 31, 2007	June 30, 2007
Accrued interest receivable	\$ 61,026	\$ 70,660	\$ 75,549
Other accrued income	23,338	24,768	25,216
Deferred Compensation Fund assets	47,751	50,336	46,742
Stock in government agencies	61,652	48,828	49,917
Private Equity funds and alternative investments	31,765	28,391	20,561
PML assets	725	1,448	5,906
Mark to market on swaps	16,318	17,288	392
Mark to market on customer swaps	2,088	1,055	19
Mark to market on foreign exchange options	(179)	172	170
Other	51,905	57,144	56,835
Total other assets	\$ 296,389	\$ 300,090	\$ 281,307

Deposits

Deposits totaled \$11.9 billion at June 30, 2008, a decrease of 9 percent compared with \$13.1 billion at June 30, 2007, and an increase of 1 percent from \$11.8 billion at December 31, 2007. Core deposits, which continued to provide substantial benefits to the Bank's cost of funds, were 91 percent of total deposits at June 30, 2008, and increased \$0.3 billion since December 31, 2007.

Average deposits totaled \$11.7 billion for the second quarter of 2008, a decrease of 7 percent from the second quarter of 2007, due primarily to the planned reduction of higher-cost time deposits. Average deposits increased 2 percent from the first quarter of 2008, and decreased 7 percent from the second quarter of 2007. Average non-interest bearing deposits increased 4 percent from the first quarter of 2008, and increased 1 percent from the second quarter of 2007. With the slowdown in housing sales, average title and escrow deposits were \$1.0 billion, \$1.1 billion, and \$1.3 billion for the three-month periods ended June 30, 2008, December 31, 2007 and June 30, 2007, respectively. Title and escrow deposits represented 8 percent of total quarterly average deposits for the three-month period ended June 30, 2008.

Borrowings

Borrowed funds were \$2.6 billion at June 30, 2008, compared with \$2.2 billion at December 31, 2007, and \$0.8 billion at June 30, 2007. The increase reflects higher other short-term borrowings to fund loan growth.

Off- Balance Sheet

In the normal course of business, the Company is a party to financial instruments with off-balance sheet exposure. These financial instruments include commitments to extend credit, letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the consolidated balance sheet. Commitments to extend credit are agreements to lend to a client, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments is expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's creditworthiness on a case-by-case basis.

The Company had off-balance sheet credit commitments aggregating \$5.4 billion at June 30, 2008, compared with \$5.3 billion at both December 31, 2007 and June 30, 2007. In addition, the Company had \$788.1 million outstanding in bankers' acceptances and letters of credit of which \$769.7 million related to standby letters of credit at June 30, 2008. At December 31, 2007, the Company had \$840.2 million in outstanding bankers' acceptances and letters of credit of which \$822.1 million related to standby letters of credit. Substantially all of the Company's loan commitments are on a variable-rate basis and are comprised of real estate and commercial loan commitments.

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As of June 30, 2008, the Company had private equity and alternative investment fund commitments of \$60.7 million, of which \$33.4 million was funded. As of December 31, 2007 and June 30, 2007, the Company had private equity and alternative investment fund commitments of \$60.7 million and \$50.7 million, respectively, of which \$31.0 million and \$23.9 million was funded. In addition, the Company had unfunded affordable housing fund commitments of \$27.3 million, \$30.3 million, and \$34.1 million as of June 30, 2008, December 31, 2007, and June 30, 2007, respectively.

In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term guarantee. The maximum liability under the guarantee is \$23.0 million, but the Company does not expect to make any payments under the terms of this guarantee.

Fair Value Measurements

The Company adopted FASB Statement No. 157, *Fair Value Measurements* (*SFAS 157*) effective January 1, 2008 on a prospective basis. SFAS 157 defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Under the statement, fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated for purposes of applying SFAS 157. The valuation premise is a concept that determines whether an asset is measured on a standalone basis or in combination with other assets. For purposes of applying the provisions of SFAS 157, the Company measures its assets and liabilities on a standalone basis then aggregates assets and liabilities with similar characteristics for disclosure purposes.

Fair Value Hierarchy

Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are based on assumptions that market participants would use in pricing an asset or liability. SFAS 157 prioritizes inputs used in valuation techniques based on whether the inputs are observable or unobservable as follows:

Level 1-Quoted market prices in an active market for identical assets and liabilities.

Level 2-Observable inputs including quoted prices (other than level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3-Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

The Company utilizes quoted market prices to measure fair value to the extent available (Level 1). If market prices are not available, fair value measurements are based on models that use primarily market-based assumptions including interest rate yield curves, anticipated prepayment rates, default rates and foreign currency rates (Level 2). In certain circumstances, market observable inputs for model-based valuation techniques may not be available and the Company is required to make judgments about assumptions that market participants would use in estimating the fair value of a financial instrument.

At June 30, 2008, \$2.5 billion, or approximately 15%, of the Company's total assets were recorded at fair value on a recurring basis. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one-half of 1% of total assets were measured using Level 3 inputs. It was determined subsequent to the initial adoption of SFAS 157 that collateralized debt obligations should be classified as Level 3 based on limited market liquidity for these securities. In addition, certain inputs to the discounted cash flow model used to value CDOs may be unobservable. At June 30, 2008, \$5.5 million of the Company's total liabilities were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs.

At June 30, 2008, \$65.6 million, or less than one-half of 1%, of the Company's total assets were recorded at fair value on a nonrecurring basis. Assets measured on a nonrecurring basis include impaired loans and other real estate owned. These assets

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were measured using Level 2 inputs based on market-based information. No liabilities were measured at fair value on a nonrecurring basis at June 30, 2008.

CAPITAL ADEQUACY REQUIREMENT

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and CNB at June 30, 2008, December 31, 2007 and June 30, 2007.

Tier 1 capital ratios at June 30, 2008 include the impact of \$25.4 million of preferred stock issued by real estate investment trust subsidiaries of the Bank, which is included in minority interest in consolidated subsidiaries, and \$5.2 million of trust preferred securities issued by an unconsolidated capital trust subsidiary of the holding company.

	Regulatory Well-Capitalized Standards	June 30, 2008	December 31, 2007	June 30, 2007
City National Corporation				
Tier 1 leverage	N/A%	7.89%	7.97%	7.97%
Tier 1 risk-based capital	6.00	9.28	9.31	9.82
Total risk-based capital	10.00	11.21	11.27	12.28
City National Bank				
Tier 1 leverage	5.00	8.04	7.95	8.21
Tier 1 risk-based capital	6.00	9.38	9.28	10.07
Total risk-based capital	10.00	11.33	11.24	12.51

The ratio of shareholders' equity to assets as of June 30, 2008 was 10.21 percent, compared to 10.26 percent at June 30, 2007 and was 10.42 percent as of December 31, 2007.

The accumulated other comprehensive loss, primarily related to available-for-sale securities and interest rate swaps, was \$24.9 million at June 30, 2008 compared to \$50.7 million at June 30, 2007 and \$9.3 million at December 31, 2007.

The following table provides information about purchases by the Company during the six months ended June 30, 2008 of equity securities that are registered by the Company pursuant of Section 12 of the Exchange Act.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
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01/1/08 - 01/31/08	10,000	\$	54.09	10,000	1,551,900
02/1/08 - 02/29/08	136,000	\$	55.66	136,000	1,415,900
03/1/08 - 03/31/08	45,500	\$	50.05	45,500	1,370,400
04/1/08 - 04/30/08	30,000	\$	44.87	30,000	1,340,400
06/1/08 - 06/30/08	200,000	\$	43.35	200,000	1,140,400
	421,500	\$	48.41	421,500(1)	1,140,400(1)

(1) On January 24, 2008 the company's Board of Directors authorized the Company to repurchase 1 million additional shares of the Company's stock following the completion of its previously approved initiative. Unless terminated earlier by resolution of our Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder. We received no shares in payment for the exercise price of stock options.

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LIQUIDITY MANAGEMENT

The Company continues to manage its liquidity through the combination of core deposits, certificates of deposits, short-term federal funds purchased, sales of securities under repurchase agreements, collateralized borrowing lines at the Federal Reserve Bank and the Federal Home Loan Bank of San Francisco and a portfolio of securities available-for-sale. Liquidity is also provided by maturities and pay downs on securities and loans.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

Market risk results from the variability of future cash flows and earnings due to changes in the financial markets. These changes may also impact the fair values of loans, securities and borrowings. The values of financial instruments may change because of interest rate changes, foreign currency exchange rate changes or other market changes. The Company's asset/liability management process entails the evaluation, measurement and management of interest rate risk, market risk and liquidity risk. The principal objective of asset/liability management is to optimize net interest income subject to margin volatility and liquidity constraints over the long term. Margin volatility results when the rate reset (or repricing) characteristics of assets are materially different from those of the Company's liabilities. The Board of Directors approves asset/liability policies and sets guidelines within which the risks must be managed. The Asset/Liability Management Committee (ALCO), which is comprised of senior management and key risk management individuals, sets risk management targets within the broader limits approved by the Board, monitors the risks and periodically reports results to the Board.

A quantitative and qualitative discussion about market risk is included on pages 48 to 52 of the Corporation's Form 10-K for the year ended December 31, 2007.

Net Interest Simulation: As part of its overall interest rate risk management process, the Company performs stress tests on net interest income projections based on a variety of factors, including interest rate levels, changes in the relationship between the prime rate and short-term interest rates, and the shape of the yield curve. The Company uses a simulation model to estimate the severity of this risk and to develop mitigation strategies, including interest-rate hedges. The magnitude of the change is determined from historical volatility analysis. The assumptions used in the model are updated periodically and reviewed and approved by ALCO. In addition, the Board of Directors has adopted limits within which interest rate exposure must be contained. Within these broader limits, ALCO sets management guidelines to further contain interest rate risk exposure.

The Company is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, the net interest margin increases when interest rates increase and decreases when interest rates decrease. The Company uses on and off-balance sheet hedging vehicles to manage this risk. The Company remains in a relatively neutral position. The simulation model uses the balance sheet as of June 30, 2008, and projects net interest income assuming no change in loan or deposit mix. Interest rate scenarios include stable rates and 100 and 200 basis point parallel shifts in the

yield curve occurring gradually over a twelve-month period. As of June 30, 2008, the simulation model indicates that a 100 basis point decline in the yield curve over a twelve-month horizon would result in a decrease in projected net interest income of approximately 0.3 percent while a 200 basis point decline would reduce projected net interest income by approximately 1.0 percent. This compares to a decrease in projected net interest income of 0.1 percent with a 100 basis point decline and 0.4 percent with a 200 basis point decline at June 30, 2007. At June 30, 2008, a gradual 100 basis point parallel increase in the yield curve over the next 12 months would result in an increase in projected net interest income of approximately 0.1 percent while a 200 basis point increase would increase projected net interest income by approximately 0.6 percent. This compares to an increase in projected net interest income of 0.8 percent with a 100 basis point increase and 1.5 percent with a 200 basis point increase at June 30, 2007. The Company's interest rate risk exposure remains within Board limits and ALCO guidelines.

Market Value of Portfolio Equity: The simulation model indicates that the market value of portfolio equity (MVPE) is somewhat vulnerable to a sudden and substantial increase in interest rates. As of June 30, 2008, a 200-basis-point parallel increase in interest rates results in a 3.3 percent decline in MVPE. This compares to a 3.1 percent decline for the year-earlier period. The higher sensitivity is due to changes in the deposit mix and a reduction in the duration of wholesale funding. As of June 30, 2008, a 200-basis-point parallel decrease in interest rates would improve MVPE by 2.0 percent. As of June 30, 2007, the MVPE would have improved by 2.3 percent if rates decreased by 200 basis points.

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The following table presents the notional amount and fair value of the Company's interest rate swap agreements according to the specific asset or liability hedged:

Dollars in millions	June 30, 2008			December 31, 2007			June 30, 2007		
	Notional Amount	Fair Value	Duration	Notional Amount	Fair Value	Duration	Notional Amount	Fair Value	Duration
Fair Value									
Interest Rate Swap									
Certificates of deposit	\$ 20.0	\$ 0.9	2.2	\$ 20.0	\$ 0.9	2.7	\$ 20.0	\$ 0.1	3.1
Long-term and subordinated debt	375.0	10.0	3.5	490.9	11.1	3.0	490.9	(9.2)	3.3
Total fair value hedge swaps	395.0	10.9	3.4	510.9	12.0	3.0	510.9	(9.1)	3.3
Cash Flow Hedge									
Interest Rate Swap									
US Dollar LIBOR based loans	200.0	2.4	2.2	100.0	3.9	2.3	275.0	(0.6)	1.4
Prime based loans	175.0	(0.2)	1.3	250.0	0.8	0.4	325.0	(2.1)	0.4
Total cash flow hedge swaps	375.0	2.2	1.8	350.0	4.7	0.9	600.0	(2.7)	0.9
Fair Value and Cash Flow Hedge									
Interest Rate Swaps	\$ 770.0	\$ 13.1(1)	2.6	\$ 860.9	\$ 16.7	2.2	\$ 1,110.9	\$ (11.8)	1.9

(1) Net fair value is the estimated net gain (loss) to settle derivative contracts. The net fair value is the sum of the mark-to-market asset (if applicable) and mark-to-market liability.

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company's interest rate risk management instruments had \$7.6 million of credit risk exposure at June 30, 2008 and \$1.6 million as of June 30, 2007. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts outstanding by trading counterparty having an aggregate positive market value. The Company's swap agreements require the deposit of cash or marketable debt securities as collateral for this risk if it exceeds certain market value thresholds. These requirements apply individually to City National Corporation and to City National Bank. As of June 30, 2008, collateral valued at \$6.8 million had been received from swap counterparties. At June 30, 2007, the Company had delivered securities with a market value of \$9.8 million as margin for swaps with a negative replacement value of \$11.7 million.

The Company also offers interest-rate swaps and interest-rate caps, floors and collars to its clients to assist them in hedging their cash flow and operations. These derivative contracts are offset by paired trades with unrelated third parties. They are not designated as hedges under SFAS 133, and the positions are marked to market each reporting period. As of June 30, 2008, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of \$160.3 million.

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ITEM 4. CONTROL AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a - 15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the registrant's last fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS
OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

We have made forward-looking statements in this document about the company, for which the company claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) changes in general business and economic conditions, either nationally, regionally or locally in areas where the company conducts its business, (2) greater than expected volatility in equity, fixed income and other market valuations, (3) protracted labor disputes in the company's markets, (4) changes in interest rates and interest-rate relationships, (5) significant changes in banking laws or regulations, (6) increased competition in the company's markets and demand for the company's products and services, (7) higher-than-expected credit losses due to business losses, real estate cycles, capital market disruptions, changes in commercial real estate development and real estate prices or other economic factors, (8) changes in the level of nonperforming assets and charge-offs and changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements, (9) changes in the financial performance and/or condition of the company's borrowers, (10) a substantial and permanent loss of either client accounts and/or assets under management at the company's investment advisory affiliates or its wealth management division, (11) earthquake, fire or other natural disasters affecting the condition of real estate collateral, (12) the effect of acquisitions and integration of acquired businesses and de novo branching efforts, (13) the impact of changes in regulatory, judicial or legislative tax treatment of business transactions, (14) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies, and (15) the success of the company at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the statements are made, or to update earnings guidance, including the factors that influence earnings.

For a more complete discussion of these risks and uncertainties, see the company's Annual Report on Form 10-K for the year ended December 31, 2007 and particularly Part I, Item 1A, titled "Risk Factors."

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PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) changes in general business and economic conditions, either nationally, regionally or locally in areas where the company conducts its business, which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense, (2) greater than expected volatility in equity, fixed income and other market valuations, (3) changes in market rates and prices which may adversely impact the value of financial products including securities, loans, deposits, debt and derivative financial instruments, and other similar financial instruments, (4) protracted labor disputes in the company's markets, (5) changes in the interest rate environment and market liquidity which may reduce interest margins and impact funding sources, (6) significant changes in banking laws or regulations, (7) increased competition in the company's markets and demand for the company's products and services, (8) higher-than-expected credit losses due to business losses, real estate cycles, capital market disruptions, changes in commercial real estate development and real estate prices or other economic factors, (9) changes in the financial performance and/or condition of the company's borrowers, (10) a substantial and permanent loss of either client accounts and/or assets under management at the company's investment advisory affiliates or its wealth management division, (11) earthquake, fire or other natural disasters affecting the condition of real estate collateral, (12) the effect of acquisitions and integration of acquired businesses and de novo branching efforts, (13) the impact of changes in regulatory, judicial or legislative tax treatment of business transactions, (14) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies, and (15) the success of the company at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the statements are made, or to update earnings guidance, including the factors that influence earnings.

For a more complete discussion of these risks and uncertainties, see the company's Annual Report on Form 10-K for the year ended December 31, 2007 and particularly Part I, Item 1A, titled "Risk Factors."

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchase of Equity Securities by the Issuer and Affiliated Purchaser.

The information required by subsection (c) of this item regarding purchases by the Company during the quarter ended June 30, 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act is incorporated by reference from that portion of Part I, Item 1 of the report under Note 7.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information required by this item was included in the Company's Form 10-Q as of March 31, 2008.

ITEM 6. EXHIBITS

No.

31.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.0 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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10.9* City National Corporation 2008 Omnibus Plan Incorporated by reference to Appendix A of the Company's Proxy Statement dated March 17, 2008

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SIGNATURES

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

CITY NATIONAL CORPORATION
(Registrant)

DATE: August 8, 2008

/s/ Christopher J. Carey

CHRISTOPHER J. CAREY
Executive Vice President and
Chief Financial Officer
(Authorized Officer and
Principal Financial Officer)