WD 40 CO
Form 10-Q
July 10, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2014

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

For the transition period from to

Commission File Number: 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware	95-1797918
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)
1061 Cudahy Place, San Diego, California	92110
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (619) 275-1400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant’s common stock, par value $0.001 per share, as of July 2, 2014 was 14,870,785.

1

WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended May 31, 2014

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

		Page
Item 1.	Financial Statements	3
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Income	5
	Condensed Consolidated Statement of Shareholders' Equity	6
	Condensed Consolidated Statements of Cash Flows	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	40

PART II — OTHER INFORMATION

Item 1.	Legal Proceedings	41
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6.	Exhibits	43

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

WD-40 COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share and per share amounts)

	May 31, 2014	August 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 44,895	$ 53,434
Short-term investments	45,413	37,516
Trade accounts receivable, less allowance for doubtful accounts of $729 and $540 at May 31, 2014 and August 31, 2013, respectively	62,079	56,878
Inventories	37,573	32,433
Current deferred tax assets, net	5,685	5,672
Other current assets	7,687	6,210
Total current assets	203,332	192,143
Property and equipment, net	9,728	8,535
Goodwill	95,544	95,236
Other intangible assets, net	24,403	24,292
Other assets	3,166	2,858
Total assets	$ 336,173	$ 323,064
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 16,934	$ 19,693
Accrued liabilities	20,409	16,562
Revolving credit facility	83,000	63,000
Accrued payroll and related expenses	12,122	17,244
Income taxes payable	1,281	1,146
Total current liabilities	133,746	117,645
Long-term deferred tax liabilities, net	24,500	24,011
Deferred and other long-term liabilities	1,931	1,901

Total liabilities	160,177	143,557
Commitments and Contingencies (Note 11)		
Shareholders' equity:		
Common stock authorized 36,000,000 shares, $0.001 par value; 19,463,726 and 19,392,979 shares issued at May 31, 2014 and August 31, 2013, respectively; and 14,928,097 and 15,285,536 shares outstanding at May 31, 2014 and August 31, 2013, respectively	19	19
Additional paid-in capital	135,866	133,239
Retained earnings	231,143	214,034
Accumulated other comprehensive income (loss)	2,192	(5,043)
Common stock held in treasury, at cost 4,535,629 and 4,107,443 shares at May 31, 2014 and August 31, 2013, respectively	(193,224)	(162,742)
Total shareholders' equity	175,996	179,507
Total liabilities and shareholders' equity	$ 336,173	$ 323,064

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share amounts)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Net sales	$ 95,650	$ 93,103	$ 285,375	$ 275,079
Cost of products sold	46,511	45,319	138,005	135,442
Gross profit	49,139	47,784	147,370	139,637
Operating expenses:				
Selling, general and administrative	26,887	25,662	80,237	74,947
Advertising and sales promotion	6,465	6,641	18,081	17,978
Amortization of definite-lived intangible assets	684	523	1,930	1,454
Total operating expenses	34,036	32,826	100,248	94,379
Income from operations	15,103	14,958	47,122	45,258
Other income (expense):				
Interest income	136	105	425	362
Interest expense	(268)	(182)	(709)	(483)
Other (expense) income, net	(11)	(94)	(454)	493
Income before income taxes	14,960	14,787	46,384	45,630
Provision for income taxes	4,554	4,520	14,179	13,958
Net income	$ 10,406	$ 10,267	$ 32,205	$ 31,672
Earnings per common share:				
Basic	$ 0.69	$ 0.66	$ 2.11	$ 2.02
Diluted	$ 0.69	$ 0.66	$ 2.10	$ 2.01
Shares used in per share calculations:				
Basic	14,977	15,460	15,152	15,579
Diluted	15,051	15,561	15,229	15,682
Dividends declared per common share	$ 0.34	$ 0.31	$ 0.99	$ 0.91

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Net income	$ 10,406	$ 10,267	$ 32,205	$ 31,672
Other comprehensive income (loss):				
Foreign currency translation adjustment	805	(56)	7,235	(3,833)
Total comprehensive income	$ 11,211	$ 10,211	$ 39,440	$ 27,839

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited and in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Equity
Balance at August 31, 2013	19,392,979	$ 19	$ 133,239	$ 214,034	$ (5,043)	4,107,443	$ (162,742)	$ 179,507
Issuance of common stock upon settlements of stock-based equity awards	70,747		(147)					(147)
Stock-based compensation			1,942					1,942
Tax benefits from settlements of stock-based equity awards			832					832
Cash dividends ($0.99 per share)				(15,096)				(15,096)
Acquisition of treasury stock						428,186	(30,482)	(30,482)
Foreign currency translation adjustment					7,235			7,235
Net income				32,205				32,205
Balance at May 31, 2014	19,463,726	$ 19	$ 135,866	$ 231,143	$ 2,192	4,535,629	$ (193,224)	$ 175,996

See accompanying notes to condensed consolidated financial statements.

6

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Nine Months Ended May 31,	
	2014	2013
Operating activities:		
Net income	$ 32,205	$ 31,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,337	3,765
Net gains on sales and disposals of property and equipment	(41)	(12)
Deferred income taxes	(330)	451
Excess tax benefits from settlements of stock-based equity awards	(824)	(666)
Stock-based compensation	1,942	1,859
Unrealized foreign currency exchange (gains) losses, net	(159)	1,326
Provision for bad debts	174	399
Changes in assets and liabilities:		
Trade accounts receivable	(3,681)	(4,395)
Inventories	(4,716)	(4,421)
Other assets	(1,616)	144
Accounts payable and accrued liabilities	21	276
Accrued payroll and related expenses	(6,924)	4,138
Income taxes payable	1,718	1,495
Deferred and other long-term liabilities	17	127
Net cash provided by operating activities	22,123	36,158
Investing activities:		
Purchases of property and equipment	(3,023)	(1,975)
Proceeds from sales of property and equipment	250	112
Purchases of intangible assets	(1,789)	-
Purchases of short-term investments	(5,756)	(36,424)
Maturities of short-term investments	914	1,029
Net cash used in investing activities	(9,404)	(37,258)
Financing activities:		
Proceeds from revolving credit facility	20,000	18,000
Dividends paid	(15,096)	(14,263)
Proceeds from issuance of common stock	1,265	3,213
Treasury stock purchases	(30,482)	(22,294)

Excess tax benefits from settlements of stock-based equity awards	824	666
Net cash used in financing activities	(23,489)	(14,678)
Effect of exchange rate changes on cash and cash equivalents	2,231	(1,668)
Net decrease in cash and cash equivalents	(8,539)	(17,446)
Cash and cash equivalents at beginning of period	53,434	69,719
Cash and cash equivalents at end of period	$ 44,895	$ 52,273

See accompanying notes to condensed consolidated financial statements.

7

WD-40 COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. The Company

WD-40 Company ("the Company"), based in San Diego, California, is a global marketing organization dedicated to creating positive lasting memories by developing and selling products which solve problems in workshops, factories and homes around the world. The Company markets multi-purpose and specialty maintenance products under the WD-40® and 3-IN-ONE® brand names. Currently included in the WD-40 brand are the WD-40 multi-use product and the WD-40 Specialist® and WD-40 BikeTM product lines. The Company also markets the following homecare and cleaning brands: X-14® mildew stain remover and automatic toilet bowl cleaners, 2000 Flushes® automatic toilet bowl cleaners, Carpet Fresh® and No Vac® rug and room deodorizers, Spot Shot® aerosol and liquid carpet stain removers, 1001® household cleaners and rug and room deodorizers and Lava® and Solvol® heavy-duty hand cleaners.

The Company's brands are sold in various locations around the world. Multi-purpose maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the United Kingdom ("U.K.") and Australia. The Company's products are sold primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets, sport retailers, independent bike dealers and industrial distributors and suppliers.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The August 31, 2013 year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

In the opinion of management, the unaudited financial information for the interim periods shown reflects all adjustments necessary for a fair statement thereof and such adjustments are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2013, which was filed with the SEC on October 22, 2013.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

Foreign Currency Forward Contracts

In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency exchange rates. The Company's U.K. subsidiary, whose functional currency is Pound Sterling, utilizes foreign currency forward contracts to limit its exposure in converting forecasted cash balances denominated in non-functional currencies. The principal currency affected is the Euro. The Company regularly monitors its foreign currency exchange rate exposures to ensure the overall effectiveness of its foreign currency hedge positions. While the Company engages in foreign currency hedging activity to reduce its risk, for accounting purposes, none of its foreign currency forward contracts are designated as hedges.

Foreign currency forward contracts are carried at fair value, with net realized and unrealized gains and losses recognized currently in other income (expense) in the Company's condensed consolidated statements of operations. Cash flows from settlements of foreign currency forward contracts are included in operating activities in the condensed consolidated statements of cash flows. Foreign currency forward contracts in an asset position at the end of the reporting period are included in other current assets, while foreign currency forward contracts in a liability position at the end of the reporting period are included in accrued liabilities in the Company's condensed consolidated balance sheets. At May 31, 2014, the Company had a notional amount of $9.2 million outstanding in foreign currency forward contracts, which mature from June 2014 through October 2014. Unrealized net gains and losses related to foreign currency forward contracts were not significant at May 31, 2014 and August 31, 2013.

Long-lived Assets

The Company's long-lived assets consist of property and equipment and definite-lived intangible assets. Long-lived assets are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and/or its remaining useful life may no longer be appropriate. Any required impairment loss would be measured as the amount by which the asset's carrying amount exceeds its fair value, which is the amount at which the asset could be bought or sold in a current transaction between willing market participants and would be recorded as a reduction in the carrying amount of the related asset and a charge to results of operations. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset.

During the fourth quarter of fiscal year 2013, the Company recorded a non-cash, before tax impairment charge of $1.1 million to reduce the carrying value of the 2000 Flushes trade name intangible asset to its fair value. For additional details, refer to the information set forth in Note 5 – Goodwill and Other Intangible Assets.

Fair Value Measurements

Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company categorizes its financial assets and liabilities measured at fair value into a hierarchy that categorizes fair value measurements into the following three levels based on the types of inputs used in measuring their fair value:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or observable inputs that are corroborated by market data; and

Level 3: Unobservable inputs reflecting the Company's own assumptions.

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of May 31, 2014, the Company had no assets or liabilities that are measured at fair value in the financial statements on a recurring basis, with the exception of the foreign currency forward contracts. The Company's financial instruments include cash equivalents, short-term investments, trade accounts receivable, accounts payable, short-term borrowings and foreign currency exchange contracts. With the exception of the foreign currency forward contracts, the carrying amounts of these financial instruments approximate their fair values due to their short-term maturities.

During the nine months ended May 31, 2014, the Company did not record any significant nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition. During the fourth quarter of fiscal 2013, the Company was required to make a nonrecurring fair value measurement related to the 2000 Flushes trade name intangible asset, for which an impairment charge of $1.1 million was recorded during that quarter. For additional details, refer to the information set forth in Note 5 – Goodwill and Other Intangible Assets.

Segment Information

The Company discloses certain information about its business segments, which are determined consistent with the way the Company's Chief Operating Decision Maker organizes and evaluates financial information internally for making operating decisions and assessing performance. In addition, the Chief Operating Decision Maker assesses and measures revenue based on product groups. The Company is organized on the basis of geographical area into the following three segments:

- Americas segment consists of the U.S., Canada and Latin America;
- Europe, Middle East and Africa (“EMEA”) segment consists of countries in Europe, the Middle East, Africa and India; and
- Asia-Pacific segment consists of Australia, China and other countries in the Asia region.

Recently Adopted Accounting Standards

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities”. The objective of this updated guidance is to provide enhanced disclosures that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. The new rules require companies to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position, as well as instruments and transactions subject to a netting arrangement. In January 2013, the FASB further issued ASU No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” to address implementation issues surrounding the scope of ASU No. 2011-11 and to clarify the scope of the offsetting disclosures and address any unintended consequences. In September 2013, the Company adopted ASU No. 2011-11 and the adoption of this new authoritative guidance did not have a material impact on the Company’s consolidated financial statement disclosures.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”, which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition”. The core principle of this updated guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new rule also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Companies are permitted to adopt this new rule following either a full or modified retrospective approach. Early adoption is not permitted. The Company has not yet determined the potential impacts of this updated authoritative guidance on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The new rules require companies to present in the financial statements an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. The Company has evaluated this updated authoritative guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

Note 3. Inventories

Inventories consist primarily of raw materials and components, finished goods, and product held at third-party contract manufacturers. Inventories are stated at the lower of cost or market and cost is determined based on a first-in, first-out method or, for a portion of raw materials inventory, the average cost method. Inventories consisted of the following (in thousands):

	May 31, 2014	August 31, 2013
Product held at third-party contract manufacturers	$ 4,996	$ 3,790
Raw materials and components	3,205	4,597
Work-in-process	372	18
Finished goods	29,000	24,028
Total	$ 37,573	$ 32,433

Note 4. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

	May 31, 2014	August 31, 2013
Machinery, equipment and vehicles	$ 13,177	$ 12,035
Buildings and improvements	4,043	3,781
Computer and office equipment	3,491	3,389
Software	6,952	5,997
Furniture and fixtures	1,431	1,285
Land	298	283
Subtotal	29,392	26,770
Less: accumulated depreciation and amortization	(19,664)	(18,235)
Total	$ 9,728	$ 8,535

Note 5. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of tangible and intangible assets acquired. The carrying value of goodwill is reviewed for possible impairment in accordance with the authoritative guidance on goodwill, intangibles and other. The Company assesses possible impairments to goodwill at least annually during its second fiscal quarter and otherwise when events or changes in circumstances indicate that an impairment condition may exist. In performing the annual impairment test of its goodwill, the Company considers the fair value concepts of a market participant and the highest and best use for its intangible assets. In addition to the annual impairment test, goodwill is evaluated each reporting period to determine whether events and circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value.

Intangible assets that are determined to have definite lives are amortized on a straight-line basis over their estimated useful lives and are evaluated each reporting period to determine whether events and circumstances indicate that their carrying amounts may not be recoverable and/or their remaining useful lives may no longer be appropriate.

Goodwill

The following table summarizes the changes in the carrying amounts of goodwill by segment (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance as of August 31, 2013	$ 85,545	$ 8,480	$ 1,211	$ 95,236
Translation adjustments	43	265	-	308
Balance as of May 31, 2014	$ 85,588	$ 8,745	$ 1,211	$ 95,544

During the second quarter of fiscal year 2014, the Company performed its annual goodwill impairment test. The annual goodwill impairment test was performed at the reporting unit level as required by the authoritative guidance. In accordance with ASU No. 2011-08, “Testing Goodwill for Impairment”, companies are permitted to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company performed a qualitative assessment of each reporting unit to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. In performing this qualitative assessment, the Company assessed relevant events and circumstances that may impact the fair value and the carrying amount of each of its reporting units. Factors that were considered included, but were not limited to, the following: (1) macroeconomic conditions; (2) industry and market conditions; (3) overall financial performance and expected financial performance; (4) other entity specific events, such as changes in management or key personnel; and (5) events affecting the Company’s reporting units, such as a change in the composition of net assets or any expected dispositions. Based on the results of this qualitative assessment, the Company determined that it is more likely than not that the carrying value of each of its reporting units is less than its fair value and, thus, the two-step quantitative analysis was not required. As a result, the Company concluded that no impairment of its goodwill existed as of February 28, 2014.

In addition, there were no indicators of impairment identified as a result of the Company’s review of events and circumstances related to its goodwill for the quarter ended May 31, 2014.

Definite-lived Intangible Assets

The Company’s definite-lived intangible assets, which include the 2000 Flushes, Spot Shot, Carpet Fresh and 1001 trade names and the Belgium customer list, are included in other intangible assets, net in the Company’s condensed consolidated balance sheets. The following table summarizes the definite-lived intangible assets and the related accumulated amortization and impairment (in thousands):

	May 31, 2014	August 31, 2013
Gross carrying amount	$ 36,732	$ 34,615
Accumulated amortization	(11,388)	(9,124)
Accumulated impairment of intangible assets	(1,077)	(1,077)
Translation adjustments	136	(122)
Net carrying amount	$ 24,403	$ 24,292

During the second quarter of fiscal year 2014, the Company entered into an Asset Purchase Agreement (the “Purchase Agreement”) by and between Etablissements Decloedt SA/NV (“Etablissements”) and WD-40 Company Limited. Since January 1998, Etablissements has acted as one of the Company’s international marketing distributors located in Belgium where it markets and distributes certain of the WD-40 products. Pursuant to the Purchase Agreement, the Company acquired the list of customers and related information (the “customer list”) from Establissements for a purchase consideration of $1.8 million in cash. The Company intends to use this customer list to solicit and transact direct sales of its products in Belgium. The Company began to amortize this customer list definite-lived intangible asset on a straight-line basis over its estimated useful life of five years in the second quarter of fiscal year 2014.

During the fourth quarter of fiscal year 2013, as part of the Company’s ongoing evaluation of potential strategic alternatives for certain of its homecare and cleaning products, the Company determined based on its review of events and circumstances that there were indicators of impairment for the Carpet Fresh and 2000 Flushes trade names. Management accordingly performed the Step 1 recoverability test for these two trade names and based on the results of this analysis, it was determined that the total of the undiscounted cash flows significantly exceeded the carrying value for the Carpet Fresh asset group and that no impairment existed for this trade name as of August 31, 2013. However, the Step 1 analysis indicated that the carrying value of the asset group for the 2000 Flushes trade name exceeded its undiscounted future cash flows, and consequently, a second phase of the impairment test (“Step 2”) was performed specific to the 2000 Flushes trade name to determine whether this trade name was impaired. The 2000 Flushes trade name failed Step 1 in the fourth quarter analysis primarily driven by changes in management's current expectations for future growth and profitability for the 2000 Flushes trade name as compared to those used in the previous Step 1 analysis performed in the third quarter of fiscal year 2013. In performing the Step 2 analysis, the Company determined the fair value of the asset group utilizing the income approach, which is based on the present value of the estimated future cash flows. The calculation that is prepared in order to determine the estimated fair value of an asset group requires management to make assumptions about key inputs in the estimated cash flows, including long-term forecasts, discount rates and terminal growth rates. In estimating the fair value of the 2000 Flushes trade name, the Company applied a discount rate of 11.3%, annual revenue growth rates ranging from negative 13.6% to positive 1.5% and a long-term terminal growth rate of 1.5%. Cash flow projections used were based on management's estimates of revenue growth rates, contribution margins and earnings before income taxes, depreciation and amortization ("EBITDA"). The discount rate used was based on the weighted-average cost of capital. The Company also considered the fair value concepts of a market participant and thus all amounts included in the long-term forecast reflect management's best estimate of what a market participant could realize over the projection period. After taking all of these factors into consideration, the estimated fair value of the asset group was then compared to the carrying value of the 2000 Flushes trade name asset group to determine the amount of the impairment. The inputs used in the impairment fair value analysis fall within Level 3 of the fair value hierarchy due to the significant unobservable inputs used to determine fair value. Based on the results of this Step 2 analysis, the 2000 Flushes asset group's estimated fair value was determined to be lower than its carrying value. Consequently,

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the Company recorded a non-cash, before tax impairment charge of $1.1 million in the fourth quarter of fiscal year 2013 to reduce the carrying value of the 2000 Flushes asset to its estimated fair value of $7.9 million.

An intangible asset valuation is dependent on a number of significant estimates and assumptions, including macroeconomic conditions, overall category growth rates, sales growth rates, cost containment and margin expansion and expense levels for advertising and promotions and general overhead, all of which must be developed from a market participant standpoint. While the Company believes that the estimates and assumptions used in such analyses are reasonable, actual events and results could differ substantially from those included in the valuation. In the event that business conditions change in the future, the Company may be required to reassess and update its forecasts and estimates used in subsequent impairment analyses. If the results of these future analyses are lower than current estimates, an additional impairment charge may result at that time.

In addition, there were no indicators of potential impairment identified as a result of the Company's review of events and circumstances related to its existing definite-lived intangible assets for the quarter ended May 31, 2014.

Changes in the carrying amounts of definite-lived intangible assets by segment for the nine months ended May 31, 2014 are summarized below (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance as of August 31, 2013	$ 21,536	$ 2,756	$ -	$ 24,292
Amortization expense	(1,656)	(274)	-	(1,930)
Customer list	-	1,819	-	1,819
Translation adjustments	-	222	-	222
Balance as of May 31, 2014	$ 19,880	$ 4,523	$ -	$ 24,403

The estimated amortization expense for the Company's definite-lived intangible assets in future fiscal years is as follows (in thousands):

	Trade Names	Customer List
Remainder of fiscal year 2014	$ 599	$ 91
Fiscal year 2015	2,378	364
Fiscal year 2016	2,378	364
Fiscal year 2017	2,378	364
Fiscal year 2018	2,378	364
Thereafter	12,624	121
Total	$ 22,735	$ 1,668

Note 6. Accrued and Other Liabilities

Accrued liabilities consisted of the following (in thousands):

	May 31, 2014	August 31, 2013
Accrued advertising and sales promotion expenses	$ 10,127	$ 9,986
Accrued professional services fees	1,739	1,358
Accrued sales taxes	765	1,494
Accrued other taxes	430	368
Other	7,348	3,356
Total	$ 20,409	$ 16,562

Accrued payroll and related expenses consisted of the following (in thousands):

	May 31, 2014	August 31, 2013
Accrued bonuses	$ 5,114	$ 9,847
Accrued payroll	3,026	2,048
Accrued profit sharing	1,654	2,739
Accrued payroll taxes	1,762	1,991
Other	566	619
Total	$ 12,122	$ 17,244

Deferred and other long-term liabilities consisted of the following (in thousands):

	May 31, 2014	August 31, 2013
Supplemental employee retirement plan benefits liability	$ 524	$ 548
Other income taxes payable	1,252	1,243
Other	155	110
Total	$ 1,931	$ 1,901

Note 7. Debt

Revolving Credit Facility

On June 17, 2011, the Company entered into an unsecured credit agreement with Bank of America, N.A. ("Bank of America"). The agreement consisted of a $75.0 million three-year revolving credit facility. Under the terms of the credit facility agreement, the Company may initiate loans in U.S. dollars or in foreign currencies from time to time during the three-year period, which was set to expire on June 17, 2014. Per the terms of the agreement, all loans denominated in U.S. dollars will accrue interest at the bank's Prime rate or at LIBOR plus a predetermined margin and all loans denominated in foreign currencies will accrue interest at LIBOR plus the same predetermined margin (together with any applicable mandatory liquid asset costs imposed by non-U.S. banking regulatory authorities). Interest on outstanding loans is due and payable on a quarterly basis through the credit facility maturity date. The Company may also borrow against the credit facility through the issuance of standby letters of credit. Outstanding letters of credit are subject to a fee equal to a predetermined percent per annum applied to amounts available to be drawn on outstanding letters of credit. The Company will also incur commitment fees for the credit facility at a predetermined annual rate which will be applied to the portion of the total credit facility commitment that has not been borrowed until outstanding loans and letters of credit exceed one half the total amount of the credit facility.

On January 7, 2013, the Company entered into a first amendment (the “Amendment”) to this existing unsecured credit agreement with Bank of America. The Amendment extends the maturity date of the revolving credit facility for five years and increases the revolving commitment to an amount not to exceed $125.0 million. The new maturity date for the revolving credit facility per the Amendment is January 7, 2018. In addition, per the terms of the Amendment, the LIBOR margin decreased from 0.90 to 0.85 percent, the letter of credit fee decreased from 0.90 to 0.85 percent per annum and the commitment fee decreased from an annual rate of 0.15 percent to 0.12 percent. The Company incurs commitment fees applied to the portion of the total credit facility commitment that has not been borrowed until outstanding loans and letters of credit exceed $62.5 million. To date, the Company has used the proceeds of the revolving credit facility for its stock repurchases and plans to continue using such proceeds for its general working capital needs and stock repurchases under any existing board approved share buy-back plans.

The agreement includes representations, warranties and covenants customary for credit facilities of this type, as well as customary events of default and remedies. The agreement also requires the Company to maintain minimum consolidated earnings before interest, income taxes, depreciation and amortization (“EBITDA”) of $40.0 million, measured on a trailing twelve month basis, at each reporting period.

During the nine months ended May 31, 2014, the Company borrowed an additional $20.0 million U.S. dollars under the revolving credit facility. The Company regularly converts existing draws on its line of credit to new draws with new maturity dates and interest rates. The balances on these draws and conversions have remained within a short-term classification due to certain contractual clauses included in its line of credit agreement with Bank of America. As of May 31, 2014, the Company had an $83.0 million outstanding balance on the revolving credit facility and was in compliance with all debt covenants under this credit facility.

Note 8. Share Repurchase Plan

On June 18, 2013, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect from August 1, 2013 through August 31, 2015, the Company is authorized to acquire up to $60.0 million of its outstanding shares on such terms and conditions as may be acceptable to the Company's Chief Executive Officer or Chief Financial Officer and subject to present loan covenants and in compliance with all laws and regulations applicable thereto. During the period from August 1, 2013 through May 31, 2014, the Company repurchased 473,819 shares at a total cost of $33.2 million.

Note 9. Earnings per Common Share

The table below reconciles net income to net income available to common shareholders (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Net income	$ 10,406	$ 10,267	$ 32,205	$ 31,672
Less: Net income allocated to participating securities	(59)	(54)	(173)	(153)
Net income available to common shareholders	$ 10,347	$ 10,213	$ 32,032	$ 31,519

The table below summarizes the weighted-average number of common shares outstanding included in the calculation of basic and diluted EPS (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2014	2013	2014	2013
Weighted-average common shares outstanding, basic	14,977	15,460	15,152	15,579
Weighted-average dilutive securities	74	101	77	103
Weighted-average common shares outstanding, diluted	15,051	15,561	15,229	15,682

For the three months ended May 31, 2014, there were no anti-dilutive stock-based equity awards outstanding. For the nine months ended May 31, 2014, 5,939 weighted-average stock-based equity awards outstanding that are non-participating securities were excluded from the calculation of diluted EPS under the treasury stock method as they were anti-dilutive. There were no anti-dilutive stock-based equity awards outstanding for the three and nine months ended May 31, 2013.

Note 10. Related Parties

On October 11, 2011, the Company's Board of Directors elected Mr. Gregory A. Sandfort as a director of WD-40 Company. Mr. Sandfort is President and Chief Executive Officer of Tractor Supply Company ("Tractor Supply"), which is a WD-40 Company customer that acquires products from the Company in the ordinary course of business.

The condensed consolidated financial statements include sales to Tractor Supply of $0.2 million and $0.3 million for the three months ended May 31, 2014 and 2013, respectively, and $0.6 million for each of the nine months ended May 31, 2014 and 2013. Accounts receivable from Tractor Supply were $0.1 million as of May 31, 2014.

Note 11. Commitments and Contingencies

Purchase Commitments

The Company has ongoing relationships with various suppliers (contract manufacturers) who manufacture the Company's products. The contract manufacturers maintain title and control of certain raw materials and components, materials utilized in finished products, and of the finished products themselves until shipment to the

Company's customers or third-party distribution centers in accordance with agreed upon shipment terms. Although the Company typically does not have definitive minimum purchase obligations included in the contract terms with its contract manufacturers, when such obligations have been included, they have been immaterial. In the ordinary course of business, supply needs are communicated by the Company to its contract manufacturers based on orders and short-term projections, ranging from two to five months. The Company is committed to purchase the products produced by the contract manufacturers based on the projections provided.

Upon the termination of contracts with contract manufacturers, the Company obtains certain inventory control rights and is obligated to work with the contract manufacturer to sell through all product held by or manufactured by the contract manufacturer on behalf of the Company during the termination notification period. If any inventory remains at the contract manufacturer at the termination date, the Company is obligated to purchase such inventory which may include raw materials, components and finished goods. Prior to the fourth quarter of fiscal year 2012, amounts for inventory purchased under termination commitments have been immaterial. As a result of the unanticipated termination of the IQ Products Company contract manufacturing agreement in the fourth quarter of fiscal year 2012, the Company is currently obligated to purchase $1.7 million of inventory which is included in inventories in the Company's condensed consolidated balance sheet as of May 31, 2014.

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of May 31, 2014, no such commitments were outstanding.

Litigation

The Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business.

On February 25, 2014, a legal action was filed against the Company in the Superior Court of California for San Diego County (David Wolf v. WD-40 Company). Mr. Wolf's complaint seeks class action status and alleges that the Company violated California Penal Code Section 632.7 which prohibits the interception and intentional recording of "a communication transmitted between two cellular radio telephones, a cellular radio telephone and a landline telephone, two cordless telephones, a cordless telephone and a landline telephone, or a cordless telephone and a cellular radio telephone" without the consent of both parties to the communication. Mr. Wolf alleges that he called a toll free number for the Company from his cellular radio telephone and that his call was recorded by the Company without his consent in violation of the statute. The California Penal Code provides for a private right of action to persons who are injured by a violation of the statute. If entitled to recover, the injured plaintiff may recover the greater of $5,000 or three times the amount of actual damages sustained by the plaintiff. The Company asserts that the Company has not violated the California Penal Code and the Company intends to vigorously defend this action. At the present time, the Company is unable to estimate the extent of possible loss or a range of possible loss that could result from this legal proceeding.

On May 31, 2012, a legal action was filed against the Company in the United States District Court, Southern District of Texas, Houston Division (IQ Products Company v. WD-40 Company). IQ Products Company, a Texas corporation ("IQPC"), or an affiliate or a predecessor of IQPC, has provided contract manufacturing services to the Company for many years. The allegations of IQPC's complaint arose out of a pending termination of this business relationship. In 2011, the Company requested proposals for manufacturing services from all of its domestic contract manufacturers in conjunction with a project to redesign the Company's supply chain architecture in North America. IQPC submitted a proposal as requested, and the Company tentatively awarded IQPC a new contract based on the information and pricing included in that proposal. IQPC subsequently sought to materially increase the quoted price for such manufacturing services. As a result, the Company chose to terminate its business relationship with IQPC. IQPC also raised alleged safety concerns regarding a long-standing manufacturing specification related to the Company's products. The Company believes that IQPC's safety concerns are unfounded.

In its complaint, IQPC asserts that the Company is obligated to indemnify IQPC for claims and losses based on a 1993 indemnity agreement and pursuant to common law. IQPC also asserts that it has been harmed by the Company's allegedly retaliatory conduct in seeking to terminate its relationship with IQPC, allegedly in response to the safety concerns identified by IQPC. IQPC seeks declaratory relief to establish that it is entitled to indemnification and also to establish that the Company is responsible for reporting the alleged safety concerns to the United States Consumer Products Safety Commission and to the United States Department of Transportation. The complaint also seeks damages for alleged economic losses in excess of $40.0 million, attorney's fees and punitive damages based on alleged misrepresentations and false promises.

On January 22, 2014, proceedings brought by the Company to have all of IQPC's claims resolved by arbitration under the rules of the American Arbitration Association in accordance with an arbitration provision of the parties' pre-existing 1996 Manufacturing License and Product Purchase Agreement were concluded. An Arbitration Panel of 3 Arbitrators selected by the parties confirmed that all claims arising out of the agreement are subject to arbitration. The arbitration proceeding is presently scheduled to be heard in August 2014 in San Diego, California. In its claim for arbitration, the Company seeks damages from IQPC arising out of the termination of the relationship, including damages arising out of IQPC's failure to cooperate with the Company with respect to the required sale and shipment of finished goods inventory to the Company in conjunction with the termination of the relationship. In addition to the claims asserted in its complaint, IQPC also seeks to recover storage fees for materials and finished goods held at its facilities since termination of the relationship.

The Company believes that IQPC's claims are without merit and the Company continues to vigorously defend this matter. At the present time, the Company is unable to estimate the extent of possible loss or a range of possible loss that could result from this legal proceeding.

Indemnifications

As permitted under Delaware law, the Company has agreements whereby it indemnifies senior officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company maintains Director and Officer insurance coverage that mitigates the Company's exposure with respect to such obligations. As a result of the Company's insurance coverage, management believes that the estimated fair value of these indemnification agreements is minimal. Thus, no liabilities have been recorded for these agreements as of May 31, 2014.

From time to time, the Company enters into indemnification agreements with certain contractual parties in the ordinary course of business, including agreements with lenders, lessors, contract manufacturers, marketing distributors, customers and certain vendors. All such indemnification agreements are entered into in the context of the particular agreements and are provided in an attempt to properly allocate risk of loss in connection with the consummation of the underlying contractual arrangements. Although the maximum amount of future payments that the Company could be required to make under these indemnification agreements is unlimited, management believes that the Company maintains adequate levels of insurance coverage to protect the Company with respect to most potential claims arising from such agreements and that such agreements do not otherwise have value separate and apart from the liabilities incurred in the ordinary course of the Company's business. Thus, no liabilities have been recorded with respect to such indemnification agreements as of May 31, 2014.

Note 12. Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The provision for income taxes was 30.4% and 30.6% of income before income taxes for the three months ended May 31, 2014 and 2013, respectively. The slight decrease in the effective income tax rate from period to period was primarily driven by an increase in the domestic production deduction. The provision for income taxes remained constant at 30.6% of income before income taxes for both the nine months ended May 31, 2014 and 2013.

The Company is subject to taxation in the U.S. and in various state and foreign jurisdictions. Due to expired statutes, the Company's federal income tax returns for years prior to fiscal year 2011 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2010 are no longer subject to examination. The Company has estimated that up to $0.1 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

Note 13. Business Segments and Foreign Operations

The Company evaluates the performance of its segments and allocates resources to them based on sales and operating income. The Company is organized on the basis of geographical area into the following three segments: the Americas; EMEA; and Asia-Pacific. Segment data does not include inter-segment revenues. Unallocated corporate expenses are general corporate overhead expenses not directly attributable to the operating segments and are reported separate from the Company's identified segments. The corporate overhead costs include expenses for the Company's accounting and finance, information technology, human resources, research and development, quality control and executive management functions, as well as all direct costs associated with public company compliance matters including legal, audit and other professional services costs.

The Company has updated the financial information previously reported for the business segments to separate out the unallocated corporate expenses. These amounts were included within the Americas segment in the Company's previously reported business segment information. In addition, effective September 1, 2013, the Company transitioned the management of its India operations to the EMEA segment. As a result, the India financial results are now being included in the EMEA segment for all periods presented. These amounts were previously included within the Asia-Pacific segment in the Company's reported business segment information. Summary information about reportable segments is as follows (in thousands):

For the Three Months Ended	Americas	EMEA	Asia-Pacific	Unallocated Corporate (1)	Total
May 31, 2014:					
Net sales	$ 45,096	$ 36,678	$ 13,876	$ -	$ 95,650
Income from operations	$ 9,991	$ 7,306	$ 2,564	$ (4,758)	$ 15,103
Depreciation and amortization expense	$ 1,035	$ 384	$ 64	$ 5	$ 1,488
Interest income	$ 3	$ 104	$ 29	$ -	$ 136
Interest expense	$ 266	$ -	$ 2	$ -	$ 268

May 31, 2013: