

WD 40 CO
Form 10-K
October 16, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number: 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

95-1797918
(I.R.S. Employer

incorporation or organization)

Identification No.)

1061 Cudahy Place, San Diego, California
(Address of principal executive offices)

92110
(Zip code)

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

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

Title of each class
Common Stock, \$0.001 par value

Name of each exchange on which registered
The NASDAQ Stock Market, LLC

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

Title of each class

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None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 Act). Yes No

The aggregate market value (closing price) of the voting stock held by non-affiliates of the registrant as of February 28, 2009 was approximately \$382,556,000.

As of October 12, 2009, there were 16,547,081 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference:

The Proxy Statement for the annual meeting of stockholders on December 8, 2009 is incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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PART I

As used in this report, the terms we, our, us and the Company refer to WD-40 Company and its wholly-owned subsidiaries, unless the context suggests otherwise. Amounts and percents in tables and discussions may not total due to rounding.

Item 1. Business

Overview

WD-40 Company is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of doer and on-the-job users by leveraging and building the brand fortress of the Company. The Company was founded in 1953 and its headquarters are in San Diego, California. For more than four decades, the Company sold only one product, WD-40®, a multi-purpose product which acts as a lubricant, rust preventative, penetrant, cleaner and moisture displacer. Over the years, the Company has developed the WD-40 product and acquired several brands worldwide as part of its strategy to build a fortress of brands that deliver a unique high value to end users.

In fiscal year 1996, the Company acquired the 3-IN-ONE® brand of general purpose and specialty maintenance products. The acquisition of the 3-IN-ONE brand provided the Company with an existing network of distribution in 17 countries, including several markets in which the WD-40 brand had not been sold. The Company used this distribution network to introduce the WD-40 brand to these markets and to add distribution channels in some of the markets that had been previously established.

In fiscal year 1999, the Company acquired the Lava® brand of heavy-duty hand cleaners, which is more than 100 years old and is well recognized by U.S. consumers. When the Lava brand was acquired, the Company identified that the Lava consumer and the WD-40 consumer shared similar characteristics. At the time of acquisition, the brand consisted of two sizes of bar soap and one size of liquid cleaner. Prior to the Company's acquisition, the brand had been sold in a limited number of domestic trade channels, notably supermarkets and drug stores. Because of its heavy-duty characteristics, the Lava brand also has appeal to consumers who shop in hardware, automotive and mass retail chains.

In fiscal year 2001, the Company acquired the business, brand trademarks, patents and other tangible and intangible assets known as Global Household Brands. The acquisition included three principal brand trademarks, 2000 Flushes® automatic toilet bowl cleaners, X-14® automatic toilet bowl cleaners and hard surface cleaners and Carpet Fresh® rug and room deodorizers. The acquisition was made to move the Company forward in its fortress of brands strategy, while also providing economies of scale in sales, manufacturing, and administration. The Global Household Brands broker network and grocery business, combined with the Company's do-it-yourself distribution, gave the Company growth potential for all brands across new trade channels.

Also in fiscal year 2001, the Company acquired the Solvol® brand of heavy-duty hand cleaners in Australia. The Company extended the brand by introducing liquid products, a benefit from the technology obtained in the acquisition of the Lava brand.

In fiscal year 2002, the Company completed the acquisition of the business, worldwide brand trademarks and other intangible assets of Heartland Corporation (Heartland). The principal brand acquired by the Company was the Spot Shot® brand, whose primary product was a carpet stain remover. The acquisition of this brand expanded the Company's product offerings for homecare and cleaning products. The acquisition also included related Spot Shot products and a group of developing brands, which were subsequently sold to former employees of Heartland.

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In fiscal year 2004, the Company purchased the 1001[®] line of carpet and household cleaners in the United Kingdom (U.K.). The Company acquired this line of products to gain a presence in the U.K. market and to facilitate an introduction of the Company's Spot Shot and Carpet Fresh brand formulations through the use of an existing brand currently recognized by market consumers.

The Company is focused on and committed to innovation and renovation. The Company sees innovation and renovation as important factors to the long-term growth of its brands, and it intends to continue to work on future product, packaging and promotional innovations and renovations. The Company is also focused on expanding its current brands in existing markets with new product development. In fiscal year 2003, a new-product development team, known as Team Tomorrow, was created to support new product development and current product improvement for all of the Company's brands. Since its inception, Team Tomorrow has made an innovation impact on most of the Company's fortress of brands. Key innovations for the Company's multi-purpose maintenance products include WD-40 Smart Straw[®], WD-40 No-Mess Pen, WD-40 Trigger Pro, 3-IN-ONE No-Rust Shield and 3-IN-ONE Professional Garage Door Lube with Smart Straw. In addition, the Company plans to launch a new product, Blue Works, targeted towards the industrial channel in the U.S. during fiscal year 2010. Innovations under the Company's homecare and cleaning products category include a non-aerosol Spot Shot trigger product, Spot Shot Pet Instant Carpet Stain & Odor Eliminator, which is a green, non-toxic, biodegradable product; a four month anti-bacterial automatic toilet bowl cleaner (ATBC) under the 2000 Flushes brand; and a mildew stain remover under the X-14 brand. Additionally, Carpet Fresh and No Vac[®] products and formulations developed by Team Tomorrow have been launched internationally.

The Company's strategic initiatives include: (i) expanding geographically in countries where end users continue to benefit from using the WD-40 brand; (ii) maximizing its position in the multi-purpose maintenance products segment by diverting a significant amount of its research and development resources from its homecare and cleaning products to its multi-purpose maintenance products and adjacent categories; (iii) developing its business through acquisitions, joint ventures and/or other strategic partnerships; and (iv) exploring the opportunities for the WD-40 brand and gaining a better understanding of consumer needs and how the brand can meet those needs.

The Company's brands are sold in various locations around the world. Multi-purpose maintenance products are sold worldwide in markets such as 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 U.K., Australia and the Pacific Rim.

Financial Information About Operating Segments

The Company's operating segments are determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company is organized on the basis of geographical area into the following segments: the Americas, Europe and Asia-Pacific.

The Company's management reviews product performance on the basis of revenue, which comes from its two product categories multi-purpose maintenance products and homecare and cleaning products. The Company sells its products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. The financial information required by this item is included in Note 14 Business Segments and Foreign Operations of the Company's consolidated financial statements, included in Item 15 of this report, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

Products

Multi-Purpose Maintenance Products

The WD-40 brand is a market leader among multi-purpose maintenance products and is sold as an aerosol spray, a non-aerosol trigger spray and in liquid form through retail chain stores, hardware stores, warehouse club stores,

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automotive parts outlets and industrial distributors and suppliers. WD-40 is sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. WD-40 has a wide variety of consumer uses in, for example, household, marine, automotive, construction, repair, sporting goods and gardening applications, in addition to numerous industrial applications.

The 3-IN-ONE brand consists of multi-purpose drip oil and spray lubricant products, as well as other specialty maintenance products. The drip oil is an entry-level lubricant with unique spout options that allow precise applications for small mechanisms and assemblies, tool maintenance and threads on screws and bolts. 3-IN-ONE Oil is the market share leader among drip oils for household consumers. It also has wide industrial applications in such areas as locksmithing, HVAC, marine, farming, construction and jewelry manufacturing. In addition to the drip oil line of products, the 3-IN-ONE brand also includes a professional line of products known as 3-IN-ONE Professional, which is a line of high quality, great value multi-purpose maintenance products. The high quality of the 3-IN-ONE brand and its established distribution network have enabled these products to gain international acceptance. 3-IN-ONE products are sold primarily in the U.S., Europe, Canada, Latin America, Australia and Asia.

Homecare and Cleaning Products

The X-14 brand is a line of quality products designed for unique cleaning needs, from quick touch-ups to deep cleaning. X-14 is sold as a liquid mildew stain remover and two types of automatic toilet bowl cleaners. X-14 is sold primarily in the U.S. through grocery and mass retail channels.

The 2000 Flushes brand is a line of long-lasting automatic toilet bowl cleaners. 2000 Flushes is sold primarily in the U.S. and Canada through grocery and mass retail channels.

The Carpet Fresh brand includes powder and aerosol foam products. Carpet Fresh is sold primarily through grocery and mass retail channels in the U.S., U.K and Australia. In the U.K., Carpet Fresh is sold under the 1001 brand name. In Australia, Carpet Fresh is sold under the No Vac brand name.

The Spot Shot brand is sold as an aerosol carpet stain remover, a liquid trigger carpet stain and odor eliminator and a multi-purpose foam cleaner. The brand also includes environmentally friendly products such as Spot Shot Instant Carpet Stain & Odor Eliminator and Spot Shot Pet Instant Carpet Stain & Odor Eliminator which are non-toxic and biodegradable. Spot Shot products are sold primarily through grocery and mass retail channels, warehouse club stores and hardware and home center stores in the U.S. and Canada. Spot Shot products are also sold in the U.K. under the 1001 brand name.

The 1001 brand includes various homecare and cleaning products and is sold primarily through mass retail, grocery and home center stores in the U.K. The brand was acquired to introduce the Company's other homecare and cleaning product formulations under the 1001 brand in order to expand the Company's homecare and cleaning products business into the U.K. market. During fiscal year 2004, the Carpet Fresh and Spot Shot brands were introduced under the 1001 brand in the U.K. The Carpet Fresh No Vac formula was one of the first aerosol rug and room deodorizers in the U.K. market.

The Lava and Solvol brands consist of heavy-duty hand cleaner products which are sold in bar soap and liquid form through hardware, grocery, industrial, automotive and mass retail channels. Lava is sold primarily in the U.S., while Solvol is sold exclusively in Australia.

Financial information about operating segments and product lines appears in Note 14 Business Segments and Foreign Operations of the Company's consolidated financial statements, which are included in Item 15 of this report.

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Sources and Availability of Components and Raw Materials

The Company relies on a limited base of suppliers for the primary components and raw materials for its products. The Company's primary components and raw materials include aerosol cans and petroleum-based products, which are manufactured from commodities that are subject to volatile price changes. The availability of these components and raw materials is affected by a variety of supply and demand factors, including global market trends, plant capacity decisions and natural disasters. The Company expects these components and raw materials to continue to be readily available in the future, although the Company is exposed to volatile price changes.

Research and Development

The Company recognizes the importance of innovation and renovation to its long-term success and is focused on and committed to research and new product development activities. The Company's new-product development team, Team Tomorrow, engages in consumer research, product development, current product improvement and testing activities, and also leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers. The Company incurred research and development expenses of \$4.8 million, \$3.6 million and \$3.8 million in fiscal years 2009, 2008 and 2007, respectively. None of this research activity was customer-sponsored.

Seasonality

Historically the Company achieved its highest quarterly sales levels during the fourth quarter of its fiscal year. These patterns were largely reflective of the customers' seasonal purchasing patterns, as well as the timing of the Company's promotional activities. Due to new product introductions and international sales growth, we did not experience such trends during fiscal years 2009, 2008 or 2007, and such trends may not exist in future years.

Manufacturing

The Company outsources the manufacturing of its finished products to various suppliers, or contract manufacturers. The Company uses contract manufacturers in the United States, Canada, Brazil, Argentina, United Kingdom, Australia, China, South Korea and India. Although the Company does not typically have any definitive minimum purchase obligations included in the contract terms with contract manufacturers, supply needs are communicated, and the Company is committed to purchase the products manufactured based on orders and short-term projections provided to the contract manufacturers. In addition, the Company has expanded its manufacturer sourcing outside of its traditional contract manufacturing and distribution model in order to support recent product introductions.

Significant Customer

Wal-Mart Stores, Inc. is a significant U.S. mass retail customer and offers a variety of the Company's products. Sales to U.S. Wal-Mart stores accounted for approximately 7 percent of the Company's consolidated net sales in each of fiscal years 2009 and 2008, and approximately 9 percent of the Company's consolidated net sales in fiscal year 2007. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 3 percent of the Company's consolidated net sales for fiscal years 2009 and 2008 and 4 percent of the Company's consolidated net sales for fiscal year 2007. Accounts receivable from Wal-Mart stores and its affiliates accounted for approximately 9 percent and 8 percent of the Company's accounts receivable at August 31, 2009 and 2008, respectively.

Order Backlog

Order backlog is not a significant factor in the Company's business.

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Competition

The market for the Company's products, especially its homecare and cleaning products, is highly competitive and is expected to be increasingly competitive in the future. The Company's products compete both within their own product classes as well as within product distribution channels, competing with many other products for store placement and shelf space. Competition in international markets varies by country. The Company is aware of many competing products, some of which sell for lower prices or are produced and marketed by companies with greater financial resources than those of the Company. The Company relies on the awareness of its brands among consumers, the value offered by those brands as perceived by consumers, product innovation and renovation and its multiple channel distributions as its primary strategies. New products typically encounter intense competition, which may require substantial advertising and promotional support. When or if a new product achieves consumer acceptance, ongoing advertising and promotional support may be required to maintain its relative market position.

Trademarks and Patents

The Company owns numerous patents, but relies primarily upon its established trademarks, brand names and marketing efforts, including advertising and sales promotion, to compete effectively. The WD-40, 3-IN-ONE, Lava, Solvol, X-14, 2000 Flushes, Carpet Fresh and No Vac, Spot Shot and 1001 trademarks are registered in various countries throughout the world.

Employees

At August 31, 2009, the Company employed 312 people worldwide: 141 by the United States parent corporation, 5 of whom are based in the Malaysian regional office; 9 by the Canadian subsidiary; 113 by the U.K. subsidiary, including 57 in the U.K., 18 in both Germany and France, 13 in Spain and 7 in Italy; 14 by the Australian subsidiary; 33 by the Chinese subsidiary; and 2 by WD-40 Manufacturing Company, the Company's manufacturing subsidiary.

Financial Information About Foreign and Domestic Operations

For detailed information about the Company's foreign and domestic operations, including net sales and total assets by reportable segment, refer to Note 14 – Business Segments and Foreign Operations of the notes to the consolidated financial statements, included in Item 15 of this report.

Access to SEC Filings

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available through the Investors section of the Company's website at www.wd40company.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Securities and Exchange Commission (SEC). Information contained on the Company's website is not included as a part of, or incorporated by reference into, this report.

Interested readers may also read and copy any materials that the Company files at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Readers may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains the Company's reports.

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Item 1A. Risk Factors

The following risks and uncertainties, as well as other factors described elsewhere in this report or in other SEC filings by the Company, could adversely affect the Company's business, financial condition and results of operations.

Price increases in finished goods, components, raw materials, transportation and other necessary supplies or services could harm the Company's results of operations.

Increases in the cost of finished goods, components and raw materials and increases in the cost of transportation and other necessary services may harm the Company's results of operations. Petroleum-based products and aerosol cans, from which WD-40 and 3-IN-ONE are manufactured, have had significant price volatility in the past, and may in the future. Fluctuations in oil prices also have impacted the Company's cost of transporting its products. As component and raw material costs are the main contribution to cost of goods sold for all of the Company's products, any significant fluctuation in the costs of components and raw materials could also have a material impact on the gross margins realized on the Company's products. Specifically, aerosol can prices are exposed to fluctuations resulting from general supply and demand economics; therefore, any significant increase or decrease in the supply and demand of steel could have a significant impact on the costs of purchasing cans and the Company's cost of goods. In the event there is significant price volatility or raw material and/or component cost increases, the Company may not be able to maintain, or may choose not to maintain, its gross margins by raising its product sales prices. Should the Company choose to increase product sales prices, such increases may adversely affect demand and unit sales. Increases in the prices for raw materials and components could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on a limited base of third-party contract manufacturers and logistics providers may result in disruption to the Company's business.

The Company relies on a limited number of third-party contract manufacturers for the production of its finished goods and third-party logistics providers for the distribution of its products to customers. The Company does not have direct control over the management or business of these third-party contract manufacturers and logistics providers, except indirectly through terms as negotiated in contracts with such third parties. Should the terms of doing business with the Company's primary contract manufacturers and/or logistics providers change, the Company's business may be disrupted which could have an adverse effect on the Company's business, financial condition and results of operations.

Reliance on a limited base of suppliers of raw materials and components may result in disruption to the Company's business.

The Company relies on a limited number of suppliers, including sole suppliers for certain of its raw materials, packaging, product components and other necessary supplies. If the Company is unable to maintain supplier arrangements and relations or if it is unable to contract with suppliers at the quantity and quality levels needed for its business, the Company could experience disruptions in production and its financial results could be adversely affected.

The Company faces intense competition in its markets, which could lead to reduced profitability.

The Company faces intense competition from consumer products companies, both in the U.S. and in its international markets. Most of the Company's products compete with other widely advertised brands within each product category and with private label brands and generic non-branded products of grocery chains and wholesale cooperatives in certain categories, which typically are sold at lower prices. The Company also encounters competition from similar and alternative products, many of which are produced and marketed by major multinational or national companies.

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The Company's products generally compete on the basis of product performance, brand recognition, price, quality or other benefits to consumers. Advertising, promotion, merchandising and packaging also have a significant impact on consumer purchasing decisions. A newly introduced consumer product (whether improved or newly developed) usually encounters intense competition requiring substantial expenditures for advertising, sales promotion and trade merchandising. If a product gains consumer acceptance, it normally requires continued advertising, promotional support and product improvements to maintain its relative market position.

Some of the Company's competitors are larger and have financial resources greater than those of the Company. These competitors may be able to spend more aggressively on advertising and promotional activities, introduce competing products more quickly and respond more effectively to changing business and economic conditions than the Company can. In addition, the Company's competitors may attempt to gain market share by offering products at sales prices at or below those typically offered by the Company.

Competitive activity may require the Company to increase its spending on advertising and promotions or reduce sales prices and may lead to reduced profit margins or a loss of market share, either of which could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not have a material adverse effect on its business, financial condition and results of operations.

Sales volume growth may be difficult to achieve.

The Company's ability to achieve sales volume growth will depend on its ability to drive growth through innovation, investment in its established brands, enhanced merchandising, its ability to capture market share from competitors and/or its ability to acquire additional brands. During each of the last several fiscal years, the Company increased sales prices on a majority of its product portfolio in response to increased costs for components and raw materials. Sales price increases may slow sales volume growth or create declines in volume in the short term as customers adjust to sales price increases. If the Company is unable to increase market share in existing product lines, develop product improvements, undertake sales and demand building initiatives to grow its product categories, develop, acquire or successfully launch new products, or successfully penetrate new and developing markets, the Company may not achieve its sales volume growth objectives.

Operations outside the U.S. expose the Company to uncertain conditions and other risks in international markets.

The Company's sales outside of the U.S. were approximately 52% of consolidated net sales in fiscal year 2009 and its strategy includes expanding its international business. The Company faces, and will continue to face, substantial risks associated with having international operations, including:

economic or political instability in its international markets, including Latin America, the Middle East, parts of Asia, Eastern Europe and Russia;

restrictions on or costs relating to the repatriation of foreign profits to the U.S., including possible taxes or withholding obligations on any repatriations; and

the imposition of tariffs or trade restrictions or other governmental actions.

These risks could have a significant impact on the Company's ability to sell its products on a competitive basis in international markets and could have a material adverse effect on the Company's business, financial condition and results of operations.

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Also, the Company's operations outside of the U.S. are subject to risks relating to appropriate compliance with legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations, potentially higher incidence of fraud or corruption, credit risk of local customers and distributors and potentially adverse tax consequences.

The Company is also exposed to foreign currency exchange rate risk with respect to its sales, expenses, profits, assets and liabilities denominated in currencies other than the U.S. dollar. Although the Company uses instruments to hedge certain foreign currency risks, it is not fully protected against foreign currency fluctuations and, therefore, the Company's reported earnings may be affected by changes in foreign currency exchange rates. Moreover, any favorable impacts to profit margins or financial results from fluctuations in foreign currency exchange rates are likely to be unsustainable over time.

Dependence on key customers could adversely affect the Company's business, financial condition and results of operations.

With the trend toward consolidation in the retail marketplace, the Company's customer base is shifting toward fewer, but larger, customers who purchase in larger volumes. A large percentage of the Company's sales are to mass retail customers. Sales to one of these customers (Wal-Mart and affiliates) accounted for approximately 10% of the Company's consolidated net sales in fiscal year 2009. Additionally, each of the Company's individual brands may be subjected to customer sales concentration. The loss of, or reduction in, orders from any of the Company's most significant customers could have a material adverse effect on the Company's brand values, business, financial condition and results of operations. Large customers also seek price reductions, added support or promotional concessions, which may negatively impact the Company's ability to maintain existing profit margins.

In addition, the Company's business is based primarily upon individual sales orders, and the Company typically does not enter into long-term contracts with its customers. Accordingly, these customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. The Company is also subject to changes in customer purchasing patterns. These types of changes may result from changes in the manner in which customers purchase and manage inventory levels, or display and promote products within their stores. Other potential factors such as customer disputes regarding shipments, fees, merchandise condition or related matters may also impact operating results. If the Company ceases doing business with a significant customer or if sales of its products to a significant customer materially decrease, the Company's business, financial condition and results of operations may be harmed.

Goodwill and intangible assets are subject to impairment risk.

The Company assesses the potential impairment of indefinite-lived intangible assets and goodwill at least annually during the second fiscal quarter and otherwise when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. The Company's impairment test is based on a discounted cash flow approach that requires significant management judgment and estimates with respect to, among other considerations, forecasted sales revenue, advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention, tax rates, terminal growth values and the selection of appropriate discount and royalty rates. Many of the factors used in assessing fair value are outside the control of management, and it is reasonably likely that assumptions and estimates will change in future periods. These changes could result in future impairments. Events and circumstances that the Company considers important which could trigger impairment include the following:

Significant underperformance relative to historical or projected future operating results;

Significant changes in the Company's strategy for its overall business or use of acquired assets;

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Significant negative industry or economic trends;

Significant decline in the Company's stock price for a sustained period;

Decreased market capitalization relative to net book value;

Unanticipated technological change or competitive activities;

Loss of key distribution;

Change in consumer demand;

Loss of key personnel; and

Acts by governments and courts.

When there is indication that the carrying value of intangible assets may not be recoverable based upon the existence of one or more of the above indicators, an impairment loss is recognized if the carrying amount of the asset exceeds its fair value. When there is an indication of impairment of goodwill, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its implied fair value.

Currently, the Company faces challenges related to its homecare and cleaning product brands, which have short differentiated life cycles and often need continuous innovation, renovation and/or continuous marketing support to address consumers' changing needs and tastes. As a result of the dynamic nature of this product category, the ability to understand consumer preferences and innovate is key to the ongoing success of the homecare and cleaning product brands. In the event that the Company is unable to meet consumer preferences through innovation and/or renovation, its homecare and cleaning product brands and product offerings may be at risk of further impairment.

During the second quarter of fiscal year 2009, the Company performed its annual impairment test of goodwill and indefinite-lived intangible assets. Based on the results of this test, the Company determined that its goodwill was not impaired since the fair value of each reporting unit exceeded its carrying value as of February 28, 2009. The Company also determined that each of the indefinite-lived intangible assets related to its homecare and cleaning product brands, with the exception of the indefinite-lived intangible asset related to its Carpet Fresh brand, was not impaired as of February 28, 2009. Due to the declines in profit margin and forecasted sales revenue for the Carpet Fresh brand, both of which occurred during the second quarter of fiscal year 2009, the Company concluded that the Carpet Fresh trade name was impaired by \$2.8 million as of February 28, 2009. The decline in forecasted sales revenue for the Carpet Fresh brand resulted from the Company's strategic decision to divert its research and development resources from its homecare and cleaning products to its multi-purpose maintenance products, the loss of distribution with a significant U.S. mass retail customer and assumed lower future foreign currency exchange rates in the U.K. and Australia. While some of these factors also impacted the indefinite-lived intangible assets related to the Company's other homecare and cleaning product brands, they did not result in impairment to any of such other indefinite-lived intangible assets as of February 28, 2009.

During the third quarter of fiscal year 2009, the Company evaluated its indefinite-lived intangible assets and determined that indicators of potential impairment existed due to the fact that actual sales revenue for the Carpet Fresh, X-14, Spot Shot and 2000 Flushes brands did not meet the Company's forecasted sales revenue for the quarter ended May 31, 2009, partially due to adverse economic conditions. As a result, the Company tested these indefinite-lived intangible assets for impairment and concluded that no impairment existed as of May 31, 2009.

During the fourth quarter of fiscal year 2009, the Company reevaluated its indefinite-lived intangible assets and determined that indicators of potential impairment existed related to the Carpet Fresh and X-14 brands due to a

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further decline in forecasted sales revenue as a result of additional lost distribution in the U.S. and further diversion of research and development resources from the Company's homecare and cleaning products to its multi-purpose maintenance products. As a result, the Company tested its indefinite-lived intangible assets related to the Carpet Fresh and X-14 trade names for impairment and concluded that they were impaired by \$3.3 million and \$0.6 million, respectively, as of August 31, 2009. As a result, the remaining carrying amounts of the Carpet Fresh and X-14 trade names were \$2.8 million and \$0.3 million, respectively, as of August 31, 2009.

As a result of lost distribution and the Company's strategic decision to divert research and development resources from its Carpet Fresh and X-14 brands, forecasted sales revenue for these brands have declined. As a result, the Company concluded that the Carpet Fresh and X-14 trade names should no longer be considered to have indefinite lives. The Company determined the estimated remaining economic lives of the Carpet Fresh and X-14 trade names based on future forecasted cash flows for these brands. The Company expects that the Carpet Fresh and X-14 brands will generate cash flows for at least the next 13 years and 8 years, respectively, which are the periods over which these trade names will be amortized on a straight-line basis beginning in fiscal year 2010.

The Company determined that no indicators of impairment existed related to the Spot Shot and 2000 Flushes brands as of August 31, 2009. However, if significant marketing and other initiatives related to these brands are not successful, they could potentially become impaired.

Negative changes in the Company's assumptions and estimates, such as royalty rates, forecasted sales revenue, advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention, development of new and/or alternative distribution channels, tax rates and terminal growth values, could result in impairment of the indefinite-lived intangible assets related to its Spot Shot and 2000 Flushes brands.

The Company will continue to closely monitor events and circumstances that could result in impairment of the indefinite-lived intangible assets related to the Spot Shot and 2000 Flushes brands. It is possible that changes in circumstances, existing at that time or at other times in the future, or in the numerous variables associated with the assumptions and estimates made by the Company in assessing the appropriate valuation of its indefinite-lived intangible assets, could in the future require the Company to record further impairment charges.

The Company may not successfully develop and introduce new products and line extensions.

The Company's future performance and growth depend, in part, on its ability to successfully develop and introduce new products and line extensions. The Company cannot be certain that it will successfully achieve those goals. The Company competes in several product categories where there are frequent introductions of new products and line extensions. The ability to understand consumer preferences and identify technological trends is key to maintaining and improving the competitiveness of its product offerings. The development and introduction of new products, as well as the renovation of current products and product lines, requires substantial and effective research, development and marketing expenditures, which the Company may be unable to recoup if the new or renovated products do not gain widespread market acceptance. There are inherent risks associated with new product development and marketing efforts, including product development or launch delays, which could result in the Company not being first to market, the failure of new products and line extensions to achieve anticipated levels of market acceptance and the cost of failed product introductions. As the Company continues to focus on innovation, the Company's business, financial condition or results of operations could be adversely affected in the event that the Company is not able to effectively develop and introduce new or renovated products and line extensions.

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The Company's operating results and net earnings may not meet expectations.

The Company cannot be sure that its operating results and net earnings will meet expectations. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of its key goals, then the Company's actual performance could vary materially from its expectations. The Company's operating results and net earnings may be influenced by a number of factors, including the following:

Significant increases in the costs of finished goods, components, raw materials and/or transportation;

The impact of general economic conditions in the U.S. and in other countries in which the Company currently does business;

Consumer and customer reaction to sales price increases;

Changes in product sales pricing by the Company or its competitors;

The introduction of new products and line extensions by the Company or its competitors;

The mix of products with varying profitability sold in a given period;

The mix of products sold within different channels and countries with varying profitability in a given period;

The Company's ability to control internal costs;

The effectiveness of the Company's advertising, marketing and promotional programs;

The availability and cost of debt financing;

The ability of the Company to execute its strategies and to maintain and enhance profits in the face of a consolidating retail environment;

The ability of the Company to achieve its business plans, including sales volume growth and sales pricing plans, as a result of high levels of competitive activity;

The ability of the Company to maintain key customer relationships;

The ability of the Company to generate expected cost savings and efficiencies;

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The ability of the Company to maintain the value of its brands;

The ability of major customers and other debtors to meet their obligations as they come due;

The failure of parties contracting with the Company to perform their obligations and the loss of or inability to renew contracts of importance to the Company's performance;

The Company's reliance on brokers for the grocery channel;

The ability to successfully manage regulatory, tax and legal matters, including resolution of pending matters within current estimates;

Substantial costs associated with regulatory compliance;

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The ability of the Company to attract and retain qualified personnel;

Expenses for impairment of goodwill, trade names and other intangible assets and equity investments in excess of projections;

Expenses for impairment and obsolescence of property, plant and equipment in excess of projections;

The ability to maintain the overall quality of new and existing products;

The ability of the Company to penetrate and grow domestic and international markets and distribution channels;

The ability of the Company to manage the impact of foreign currency exchange rate fluctuations;

The impact of foreign import and export restrictions or other trade regulations;

Changes to cash flow resulting from the Company's operating results, tax payments, tax settlements, debt repayments and share repurchases;

The ability of the Company to manage inventory at appropriate levels, including decisions regarding obsolescence;

Changes in accounting policies and accounting standards;

The impact of any litigation or product liability claims; and

Fluctuations in federal, state, local and foreign taxes.

In addition, sales volume growth, whether due to acquisitions or internal growth, can place burdens on management resources and financial controls that, in turn, can have a negative impact on operating results. To some extent, the Company plans its expense levels in anticipation of future revenues. If actual revenues fall short of these expectations, operating results and net earnings are likely to be adversely affected.

The recent changes in general economic conditions, and the impact on consumer confidence and consumer spending, may negatively impact the Company's future results of operations.

The Company's performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Recently, consumer confidence and consumer spending have deteriorated significantly and could remain depressed for an extended period. Some of the factors influencing this deterioration include fluctuating interest rates and credit availability, fluctuating fuel and other energy costs, fluctuating commodity prices, higher levels of unemployment, higher consumer debt levels, reductions in net worth based on market declines, home foreclosures and reductions in home values, and general uncertainty regarding the overall future economic environment. Consumer purchases of discretionary items, including the Company's multi-purpose maintenance products and homecare and cleaning products, generally decline during periods where disposable income is adversely affected or there is economic uncertainty, and this may negatively impact the Company's financial condition and results of operations.

Government regulations could impose material costs.

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The Company is subject to numerous environmental laws and regulations that impose various environmental controls on its business operations, including, among other things, the discharge of pollutants into the air and water, the handling, use, treatment, storage and clean-up of solid and hazardous wastes and the investigation and

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remediation of soil and groundwater affected by hazardous substances. Such laws and regulations may otherwise relate to various health and safety matters that impose burdens upon the Company's operations. These laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances. The Company believes that its expenditures related to environmental matters have not had, and are not currently expected to have, a material adverse effect on its financial condition, results of operations or cash flows. However, the environmental laws under which the Company operates are complicated and often increasingly more stringent, and may be applied retroactively. Accordingly, there can be no assurance that the Company will not be required to make additional expenditures to remain in or to achieve compliance with environmental laws in the future or that any such additional expenditures will not have a material adverse effect on the Company's business, financial condition or results of operations.

Some of the Company's products have chemical compositions that are controlled by various state, federal and international laws and regulations. The Company is required to comply with these laws and regulations and seeks to anticipate regulatory developments that could impact the Company's ability to continue to produce and market its products. The Company invests in research and development to maintain product formulations that comply with such laws and regulations. There can be no assurance that the Company will not be required to alter the chemical composition of one or more of the Company's products in a way that will have an adverse effect upon the product's efficacy or marketability. A delay or other inability of the Company to complete product research and development in response to any such regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

A focus on environmental regulations relating to Volatile Organic Compounds (VOCs) resulted in a change in 1996 in the formulation of the WD-40 product in the majority of countries where the product is sold, whereby CO₂ was chosen as the aerosol propellant. This change increased the cost of manufacturing WD-40, and the Company increased its selling prices to partially offset the additional cost. In the event of future increases in product cost, the Company may not be in a position to raise selling prices, and therefore an increase in costs could have an adverse effect on the Company's profitability.

In California, VOCs are regulated by the California Air Resources Board (CARB), one of the most influential state environmental regulatory agencies in the United States. In the past, CARB regulations have required a reformulation of some of the Company's multi-purpose lubricants. The Company successfully reformulated some of its multi-purpose lubricants to be in full compliance with CARB regulations. The reformulation resulted in increased product costs.

On June 26, 2008, CARB voted to approve proposed regulatory amendments to establish lower limits for VOCs in certain regulated consumer products, including multi-purpose lubricants, carpet cleaners and stain removers. The amendments to the California Regulation for Reducing VOC Emissions from Consumer Products (the Consumer Products Regulation) will require reductions in the levels of VOCs in each product category by dates specified in the amendments. For multi-purpose lubricants, the amendments will require a reduction in VOC levels from the current standard of 50% by weight to 25% by December 31, 2013 and to 10% by December 31, 2015. If the Consumer Products Regulation is implemented as proposed, the Company will be required to reformulate certain of its products, specifically including the WD-40 brand products, in order to comply with these lower limits on VOC content. There can be no assurance that reformulation of the Company's products can be accomplished at a commercially reasonable cost or without having an adverse impact on product performance. The inability of the Company to successfully reformulate its products to comply with the Consumer Products Regulation could have a material adverse effect on the Company's business, financial condition and results of operations.

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CARB continually reviews its allowable levels of VOCs in products and product categories in which the Company's products compete. In the event that CARB regulations require further reformulations of any of the Company's products, the impact of reformulation could have an adverse effect on product performance and the Company's profitability.

In conjunction with the review of the state budget, California authorized CARB to enforce a fee-based system, which would allow it to collect fees from those it governs on the VOC issues. These fees go into CARB's operating budget and help cover shortfalls, and are based on the amount of VOCs a company's product puts into the state's atmosphere. If a similar VOC policy is adopted by other states, the potential impact of fees charged could be material to the Company.

Generally, the manufacturing, packaging, storage, distribution and labeling of the Company's products and the Company's business operations all must comply with extensive federal, state, and foreign laws and regulations. It is possible that the government will increase regulation of the transportation, storage or use of certain chemicals, to enhance homeland security or protect the environment and that such regulation could negatively impact raw material, component and/or finished goods supplies or costs.

Resolutions of tax disputes may impact the Company's earnings and cash flow.

Significant judgment is required in determining the Company's effective tax rate and in evaluating tax positions. Effective September 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and *Interpretation of Financial Accounting Standards Board Statement No. 109* (FIN 48). The Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by FIN 48. Changes in uncertain tax positions, including related interest and penalties, impact the Company's effective tax rate. When particular tax matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable resolution of any tax matter could increase the effective tax rate. Any resolution of a tax matter may require the adjustment of tax assets or tax liabilities or the use of cash in the year of resolution. For additional information, refer to the information set forth in Note 11 - Income Taxes of the notes to the consolidated financial statements included in Item 15 of this report.

Business development activities may not be successful.

The Company may seek to increase growth through business development activities such as acquisitions, joint ventures or other strategic partnerships. However, if the Company is not able to successfully integrate acquired products or manage joint ventures or other strategic partnerships, the Company may not be able to maximize these opportunities. Rather, the failure to properly manage business development activities because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors could materially adversely affect the Company's business, financial condition and results of operations.

One of the Company's strategies is to increase its sales volumes, earnings and the markets it serves through acquisitions of, joint ventures with or other strategic partnerships with other businesses in the United States and internationally. There can be no assurance that the Company will be able to identify, acquire, or profitably manage additional companies or operations or that it will be able to successfully integrate future acquisitions into its operations. In addition, there can be no assurance that business development activities will be profitable at their inception or that they will achieve sales levels and profitability that justify the investments made.

Future acquisitions, joint ventures or strategic partnerships could also result in the incurrence of debt, potentially dilutive issuances of equity securities, contingent liabilities, amortization expenses related to certain intangible assets and/or increased operating expenses, which could adversely affect the Company's results of operations and

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financial condition. In addition, to the extent that the economic benefits associated with any of the Company's business development activities diminish in the future, the Company may be required to record write-downs of goodwill, intangible assets or other assets associated with such activities, which could also adversely affect the Company's business, financial condition and results of operations.

The Company may not have sufficient cash to service its indebtedness and pay cash dividends.

The Company has historically paid out a large part of its earnings to stockholders in the form of regular quarterly cash dividends. The past acquisitions have been funded to a large extent by debt. In order to service the debt, the Company is required to use its income from operations to make interest and principal payments required by the terms of the loan agreements. In addition, the Company is required by covenants within the loan agreements to maintain certain financial ratios and compliance with other financial terms.

In December 2006, the Company increased its regular quarterly cash dividend from \$0.22 to \$0.25 per share. However, if operating income is not sufficient to properly service the debt or otherwise allow the Company to maintain compliance with the terms of its loans, the Company could be required to seek additional financing by incurring additional debt or through the sale of equity securities, or the Company might be required to reduce dividends. The Company may also incur substantial additional debt in the future for other reasons, including acquisitions or other business development activities. To the extent that the Company is required to seek additional financing by incurring more debt or selling equity securities, such financing may not be available in sufficient amounts or on terms acceptable to the Company. If new debt is added to current debt levels, the Company's related risks could intensify.

Failure to maximize or to successfully assert the Company's intellectual property rights could impact its competitiveness.

The Company relies on trademark, trade secret, patent and copyright laws to protect its intellectual property rights. The Company cannot be sure that these intellectual property rights will be maximized or that they can be successfully asserted. There is a risk that the Company will not be able to obtain and perfect its own intellectual property rights or, where appropriate, license intellectual property rights necessary to support new product introductions. The Company cannot be certain that these rights, if obtained, will not be invalidated, circumvented or challenged in the future, and the Company could incur significant costs in connection with legal actions to defend its intellectual property rights. In addition, even if such rights are obtained in the United States, the laws of some of the other countries in which the Company's products are or may be sold do not protect intellectual property rights to the same extent as the laws of the United States. If other companies infringe the Company's intellectual property rights, they may dilute the value of the Company's brands in the marketplace, which could diminish the value the consumers associate with the Company's brands and harm its sales. The failure of the Company to perfect or successfully assert its intellectual property rights or to protect its other proprietary information could make the Company less competitive and could have a material adverse effect on its business, financial condition and results of operations.

If the Company is found to have infringed the intellectual property rights of others, its competitiveness could be negatively impacted.

If the Company is found to have violated the trademark, trade secret, copyright, patent or other intellectual property rights of others, such a finding could result in the need to cease the use of a trademark, trade secret, copyrighted work or patented invention in the Company's business and the obligation to pay a substantial amount for past infringement. It could also be necessary to pay a substantial amount in the future if the rights holders are willing to permit the Company to continue to use the intellectual property rights. Either having to cease use or pay such amounts could make the Company less competitive and could have a material adverse impact on its business, financial condition and results of operations.

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Volatility in the insurance market could result in additional risk to the Company.

The Company reevaluates its insurance coverage annually. From time to time, insurance contracts may be much more expensive, less protective or even unavailable. In such a case, the Company may decide to decrease its levels of insurance coverage, thereby undertaking additional risk.

Product liability claims and other litigation could adversely affect the Company's sales and operating results.

While the Company exerts every effort to ensure that the products it develops and markets are safe for consumers, the use of the Company's products may expose the Company to liability claims resulting from such use. Claims could be based on allegations that, among other things, the Company's products contain contaminants, provide inadequate instructions regarding their use or inadequate warnings concerning interactions with other substances. Product liability claims c