

WD 40 CO  
Form 10-Q  
July 09, 2013

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, 2013

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

For the transition period from            to

Commission File Number: 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-1797918 (I.R.S. Employer 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

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, 2013 was 15,314,881.

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WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended May 31, 2013

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## 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, 2013	August 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,273	\$ 69,719
Short-term investments	35,188	1,033
Trade accounts receivable, less allowance for doubtful accounts of \$677 and \$391 at May 31, 2013 and August 31, 2012, respectively	56,969	55,491
Inventories	33,925	29,797
Current deferred tax assets, net	5,532	5,551
Other current assets	4,074	4,526
Total current assets	187,961	166,117
Property and equipment, net	8,459	9,063
Goodwill	95,148	95,318
Other intangible assets, net	26,113	27,685
Other assets	2,810	2,687
Total assets	\$ 320,491	\$ 300,870
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,049	\$ 21,242
Accrued liabilities	16,144	16,492
Revolving credit facility	63,000	45,000
Accrued payroll and related expenses	11,010	5,904
Income taxes payable	567	807
Total current liabilities	111,770	89,445

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Long-term deferred tax liabilities, net	25,244	24,007
Deferred and other long-term liabilities	2,065	1,956
Total liabilities	139,079	115,408

Shareholders' equity:

Common stock authorized 36,000,000 shares, \$0.001 par value; 19,346,260 and 19,208,845 shares issued at May 31, 2013 and August 31, 2012, respectively; and 15,399,910 and 15,697,534 shares outstanding at May 31, 2013 and August 31, 2012, respectively	19	19
Additional paid-in capital	130,878	126,210
Retained earnings	210,674	193,265
Accumulated other comprehensive loss	(6,560)	(2,727)
Common stock held in treasury, at cost 3,946,350 and 3,511,311 shares at May 31, 2013 and August 31, 2012, respectively	(153,599)	(131,305)
Total shareholders' equity	181,412	185,462
Total liabilities and shareholders' equity	\$ 320,491	\$ 300,870

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,	
	2013	2012	2013	2012
Net sales	\$ 93,103	\$ 87,022	\$ 275,079	\$ 257,933
Cost of products sold	45,319	43,940	135,442	131,370
Gross profit	47,784	43,082	139,637	126,563
Operating expenses:				
Selling, general and administrative	25,662	22,736	74,947	67,280
Advertising and sales promotion	6,641	6,702	17,978	19,465
Amortization of definite-lived intangible assets	523	504	1,454	1,669
Total operating expenses	32,826	29,942	94,379	88,414
Income from operations	14,958	13,140	45,258	38,149
Other income (expense):				
Interest income	105	61	362	182
Interest expense	(182)	(159)	(483)	(484)
Other (expense) income, net	(94)	(170)	493	(342)
Income before income taxes	14,787	12,872	45,630	37,505
Provision for income taxes	4,520	3,736	13,958	10,993
Net income	\$ 10,267	\$ 9,136	\$ 31,672	\$ 26,512

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Earnings per common share:

Basic	\$ 0.66	\$ 0.57	\$ 2.02	\$ 1.65
Diluted	\$ 0.66	\$ 0.57	\$ 2.01	\$ 1.64

Shares used in per share calculations:

Basic	15,460	15,872	15,579	15,966
Diluted	15,561	16,008	15,682	16,094
Dividends declared per common share	\$ 0.31	\$ 0.29	\$ 0.91	\$ 0.85

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
 INCOME

(Unaudited and in thousands)

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2013	2012	2013	2012
Net income	\$ 10,267	\$ 9,136	\$ 31,672	\$ 26,512
Other comprehensive loss:				
Foreign currency translation adjustment	(56)	(1,776)	(3,833)	(3,837)
Total comprehensive income	\$ 10,211	\$ 7,360	\$ 27,839	\$ 22,675

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 Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balance at August 31, 2012	19,208,845	\$ 19	\$ 126,210	\$ 193,265	\$ (2,727)	3,511,311	\$ (131,305)	\$ 185,462
Issuance of common stock upon settlements of stock-based equity awards	137,415		2,107					2,107
Stock-based compensation			1,859					1,859
Tax benefits from settlements of stock-based equity awards			702					702
Cash dividends (\$0.91 per share)				(14,263)				(14,263)
Acquisition of treasury stock						435,039	(22,294)	(22,294)
Foreign currency translation adjustment					(3,833)			(3,833)
Net income				31,672				31,672
Balance at May 31, 2013	19,346,260	\$ 19	\$ 130,878	\$ 210,674	\$ (6,560)	3,946,350	\$ (153,599)	\$ 181,412

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended May 31,	
	2013	2012
Operating activities:		
Net income	\$ 31,672	\$ 26,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,765	3,691
Net (gains) losses on sales and disposals of property and equipment	(12)	4
Deferred income taxes	451	664
Excess tax benefits from settlements of stock-based equity awards	(666)	(449)
Stock-based compensation	1,859	2,169
Unrealized foreign currency exchange losses, net	1,326	1,128
Provision for bad debts	399	83
Changes in assets and liabilities:		
Trade accounts receivable	(4,395)	2,381
Inventories	(4,421)	(8,451)
Other assets	144	(1,293)
Accounts payable and accrued liabilities	276	2,195
Accrued payroll and related expenses	4,138	(2,960)
Income taxes payable	1,495	1,263
Deferred and other long-term liabilities	127	(536)
Net cash provided by operating activities	36,158	26,401
Investing activities:		
Purchases of property and equipment	(1,975)	(3,043)
Proceeds from sales of property and equipment	112	1,133
Purchases of short-term investments	(36,424)	(529)
Maturities of short-term investments	1,029	514
Net cash used in investing activities	(37,258)	(1,925)
Financing activities:		
Repayments of long-term debt	-	(10,715)
Proceeds from revolving credit facility	18,000	99,550

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Repayments of revolving credit facility	-	(54,550)
Dividends paid	(14,263)	(13,625)
Proceeds from issuance of common stock	3,213	3,112
Treasury stock purchases	(22,294)	(30,901)
Excess tax benefits from settlements of stock-based equity awards	666	449
Net cash used in financing activities	(14,678)	(6,680)
Effect of exchange rate changes on cash and cash equivalents	(1,668)	(2,480)
Net (decrease) increase in cash and cash equivalents	(17,446)	15,316
Cash and cash equivalents at beginning of period	69,719	56,393
Cash and cash equivalents at end of period	\$ 52,273	\$ 71,709

See accompanying notes to condensed consolidated financial statements.

## 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 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 upon the Company’s fortress of brands. The Company markets multi-purpose maintenance products – under the WD-40®, 3-IN-ONE®, and BLUE WORKS® brand names.

Currently included in the WD-40 brand are the WD-40 multi-use product and the WD-40 Specialist® and WD-40 Bike™ product lines. The Company launched the WD-40 Specialist product line in the United States (“U.S.”) during the first quarter of fiscal year 2012 and continued to launch the product line in Canada and select countries in Latin America, Asia and Europe throughout fiscal year 2012 and going into fiscal year 2013. The WD-40 Specialist product line has contributed to sales of the multi-purpose maintenance products since its initial launch. In the fourth quarter of fiscal year 2012, the Company developed the WD-40 Bike product line, which is focused on a comprehensive line of bicycle maintenance products that include wet and dry chain lubricants, heavy-duty degreasers, foaming bike wash and frame protectants that are designed specifically for the avid cyclist, bike enthusiasts and mechanics. The Company started to launch certain products in this line in the U.S. during the first quarter of fiscal year 2013, but the focus for such sales is to smaller independent bike dealers rather than larger retailers. As a result of this, initial sales have been immaterial and sales are expected to remain immaterial in its initial year of launch. 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.”), Australia and the Pacific Rim. 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, 2012 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. 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, 2012, which was filed with the SEC on October 22, 2012.

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. 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, 2013, the Company had a notional amount of \$10.9 million outstanding in foreign currency forward contracts, which mature from June 2013 through September 2013. Unrealized net gains and losses related to foreign currency forward contracts were not material at May 31, 2013 and August 31, 2012.

#### 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.

#### Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax liability or asset is established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. In addition to valuation allowances, the Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance on income taxes. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. The Company recognizes accrued interest and penalties related to uncertain tax positions as a component of income tax expense.

U.S. federal income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. federal income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested. The Company determines whether its foreign subsidiaries will invest their undistributed earnings indefinitely based on the capital needs of the foreign subsidiaries and reassesses this determination each reporting period. Changes to the Company's determination may be warranted based on the Company's experience as well as its plans regarding future international operations and expected remittances.

#### Earnings per Common Share

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities that are required to be included in the computation of earnings per common share pursuant to the two-class method. Accordingly, the Company's outstanding unvested, if any, and outstanding vested restricted stock units that provide such nonforfeitable rights to dividend equivalents are included



as participating securities in the calculation of earnings per common share (“EPS”) pursuant to the two-class method.

The Company calculates EPS using the two-class method, which provides for an allocation of net income between common stock and other participating securities based on their respective participation rights to share in dividends. Basic EPS is calculated by dividing net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Net income available to common shareholders for the period includes dividends paid to common shareholders during the period plus a proportionate share of undistributed net income allocable to common shareholders for the period; the proportionate share of undistributed net income allocable to common shareholders for the period is based on the proportionate share of total weighted-average common shares and participating securities outstanding during the period.

Diluted EPS is calculated by dividing net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period increased by the weighted-average number of potentially dilutive common shares (dilutive securities) that were outstanding during the period if the effect is dilutive. Dilutive securities are comprised of stock options, restricted stock units, performance share units and market share units granted under the Company’s prior stock option plan and current equity incentive plan.

#### Recently Adopted Accounting Standards

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income”, which is effective for reporting periods beginning after December 15, 2012. This authoritative guidance was issued to improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”). This guidance requires companies to provide information about the amounts reclassified out of AOCI either in a single note or on the face of the financial statements. Significant amounts reclassified out of AOCI should be presented by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified in its entirety to net income in the same reporting period. For amounts not required to be reclassified in their entirety to net income, a cross-reference to other disclosures provided for in accordance with U.S. GAAP is required. The adoption of this new authoritative guidance did not have an impact on the Company’s consolidated financial statement disclosures.

In June 2011, the FASB issued updated authoritative guidance to amend the presentation of comprehensive income. Under these new presentation rules, companies have the option to present other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated authoritative guidance on comprehensive income is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The amendments in this guidance also require that reclassifications from other comprehensive income to net income be presented on the face of the consolidated financial statements, but this portion of the guidance was indefinitely deferred in accordance with the Accounting Standards Update (“ASU”) No. 2011-12 which was issued by the FASB in December 2011. In September 2012, the Company adopted this updated authoritative guidance and elected to present comprehensive income in two separate

but consecutive statements as part of the condensed consolidated financial statements included in its Quarterly Reports on Form 10-Q. Other than a change in presentation, the adoption of this new authoritative guidance did not have an impact on the Company's consolidated financial statements.

#### Recently Issued Accounting Standards

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities", which is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. This authoritative guidance was issued to enhance disclosure requirements on offsetting financial assets and liabilities. 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. 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 statement disclosures.

## Note 3. Fair Value Measurements

## Financial Assets and Liabilities

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.

The Company's financial assets recorded at fair value are summarized below, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	May 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 7,055	\$ -	\$ 7,055	\$ -
Time deposits	16,795	-	16,795	-
Term deposits	966	-	966	-
Callable time deposits	34,222	-	34,222	-
Total	\$ 59,038	\$ -	\$ 59,038	\$ -

	August 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 4,025	\$ -	\$ 4,025	\$ -
Term deposits	1,033	-	1,033	-

Total                   \$ 5,058   \$ -   \$ 5,058   \$ -

Money market funds and time deposits are highly liquid investments classified as cash equivalents and term deposits and callable time deposits are classified as short-term investments in the Company's condensed consolidated balance sheets at May 31, 2013 and August 31, 2012.

The carrying values of term deposits and callable time deposits are recorded at cost, which approximates fair value that is based on third party quotations of similar assets in active markets, and are thus classified as Level 2 within the fair value hierarchy.

The carrying values of trade accounts receivable, accounts payable and the revolving line of credit approximate their fair values due to their short-term maturities.

There were no transfers between Level 1 and Level 2 fair value measurements during the nine months ended May 31, 2013 and 2012.

#### Nonfinancial Assets and Liabilities

The Company's nonfinancial assets and liabilities are recognized at fair value subsequent to initial recognition when they are deemed to be impaired. There were no nonfinancial assets and liabilities deemed to be impaired and measured at fair value on a nonrecurring basis as of May 31, 2013 and August 31, 2012.

## Note 4. Inventories

Inventories consisted of the following (in thousands):

	May 31, 2013	August 31, 2012
Product held at third-party contract manufacturers	\$ 4,528	\$ 4,142
Raw materials and components	4,220	4,093
Work-in-process	352	347
Finished goods	24,825	21,215
Total	\$ 33,925	\$ 29,797

## Note 5. Property and Equipment

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

	May 31, 2013	August 31, 2012
Machinery, equipment and vehicles	\$ 12,855	\$ 12,517
Buildings and improvements	3,589	3,574
Computer and office equipment	3,506	3,270
Software	5,953	5,530
Furniture and fixtures	1,284	1,229
Land	279	287
Subtotal	27,466	26,407
Less: accumulated depreciation and amortization	(19,007)	(17,344)
Total	\$ 8,459	\$ 9,063

## Note 6. 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 there is evidence that 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	Europe	Asia-Pacific	Total
Balance as of August 31, 2012	\$ 85,558	\$ 8,549	\$ 1,211	\$ 95,318
Translation adjustments	(25)	(144)	(1)	(170)
Balance as of May 31, 2013	\$ 85,533	\$ 8,405	\$ 1,210	\$ 95,148

During the second quarter of fiscal year 2013, 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 on intangibles, goodwill and other. Under updated authoritative guidance which was issued by the FASB in September 2011, companies are permitted to perform a qualitative assessment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. During the second quarter of fiscal year 2013, the Company performed a qualitative assessment of all reporting units of whether it is more likely than not that the fair value of a reporting unit is 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, 2013.

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, 2013.

#### Definite-lived Intangible Assets

The Company's definite-lived intangible assets 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 (in thousands):

	May 31, 2013	August 31, 2012
Gross carrying amount	\$ 34,532	\$ 34,689
Accumulated amortization	(8,226)	(6,943)
Translation adjustments	(193)	(61)
Net carrying amount	\$ 26,113	\$ 27,685

In April 2013, the Company determined based on its review of events and circumstances that there were indicators that the carrying values of its 2000 Flushes, Spot Shot, Carpet Fresh and X-14 definite-lived intangible assets may not be fully recoverable. The specific event which existed for each of the trade names was related to the Company's evaluation work which it started in late April 2013 and was an outcome of discussions with the Board of Directors in March 2013 to explore the strategic alternatives for these homecare and cleaning products in the Americas segment. As a result of this work being performed by the Company starting in late April 2013, it was determined that there is a

likelihood of more than 50% that these trade names will be sold or otherwise disposed of significantly before the end of their previously estimated useful lives. As a result, management performed the Step 1 recoverability test under Accounting Standards Codification 360-10-35, Impairment or Disposal of Long-Lived Assets, for each of these trade names. In performing the Step 1 recoverability test, the Company compared the carrying value of each asset group, which was determined to be at the trade name level, to the total of the undiscounted cash flows expected to be received over the remaining useful life of each trade name asset group. In accordance with the guidelines for impairment or disposal of long-lived assets, if the total of the undiscounted cash flows exceeds the carrying value, no additional analysis for impairment is required. If the carrying value exceeds the total of the undiscounted cash flows, the asset group is not fully recoverable and an impairment loss must be calculated (Step 2) and recognized during the period. Based on the results of this recoverability test, the Company determined that the total of the undiscounted cash flows exceeded the carrying value of each of these asset groups as of May 31, 2013.

Although no impairment existed for any of these trade names, the total of the undiscounted cash flows for the 2000 Flushes trade name was not substantially in excess of its carrying value. The 2000 Flushes trade name had a net carrying value of \$9.3 million as of May 31, 2013. While the Company believes the estimates and assumptions used in the Step 1 recoverability test are reasonable, significant changes in estimates of future cash flows such as those caused by unforeseen events or changes in market conditions could warrant a Step 2 fair value determination, which could result in the recognition of an impairment charge. Such events and changes in market conditions include actual results below forecasted results for a prolonged period of time as well as category declines, increased



competition, lost distribution, reduced product offerings and the volatility of orders from promotional programs with certain of the Company's customers, particularly those in the warehouse club and mass retail channels.

There were no indicators of impairment identified as a result of the Company's review of events and circumstances related to its 1001 trade name intangible asset for the quarter ended May 31, 2013 and thus the Step 1 recoverability test was not performed for this trade name.

In conjunction with the Step 1 recoverability test that was conducted during the third quarter of fiscal year 2013 for the 2000 Flushes, Spot Shot, Carpet Fresh and X-14 trade names, the Company also performed an evaluation of the remaining useful life for each of these trade names to determine if they were still appropriate as of May 31, 2013. Based on the results of this evaluation, the Company decided to reduce the remaining useful life of the 2000 Flushes trade name from its remaining useful life of fourteen years and ten months to seven years effective on May 1, 2013. Consequently, the Company began to amortize this trade name on a straight-line basis over its new remaining useful life effective on May 1, 2013. The Company determined that no reduction of the remaining useful lives for the Spot Shot, Carpet Fresh, X-14 and 1001 trade names were warranted as a result of this evaluation.

Changes in the carrying amounts of definite-lived intangible assets by segment for the nine months ended May 31, 2013 are summarized below (in thousands):

	Americas	Europe	Asia-Pacific	Total
Balance as of August 31, 2012	\$ 24,714	\$ 2,971	\$ -	\$ 27,685
Amortization expense	(1,334)	(120)	-	(1,454)
Translation adjustments	-	(118)		(118)
Balance as of May 31, 2013	\$ 23,380	\$ 2,733	\$ -	\$ 26,113

The estimated amortization expense for the Company's definite-lived intangible assets, which include the 2000 Flushes, Spot Shot, Carpet Fresh, X-14 and 1001 trade names, in future fiscal years is as follows (in thousands):

	Trade
	Names
Remainder of fiscal year 2013	\$ 642

Fiscal year 2014	2,564
Fiscal year 2015	2,564
Fiscal year 2016	2,564
Fiscal year 2017	2,564
Thereafter	15,215
Total	\$ 26,113

Included in the total estimated future amortization expense is the amortization expense for the 1001 trade name intangible asset, which is based on current foreign currency exchange rates, and as a result amounts in future periods may differ from those presented due to fluctuations in those rates.

#### Note 7. Accrued and Other Liabilities

Accrued liabilities consisted of the following (in thousands):

	May 31, 2013	August 31, 2012
Accrued advertising and sales promotion expenses	\$ 9,972	\$ 9,963
Accrued professional services fees	1,705	1,006
Accrued sales taxes	883	839
Accrued other taxes	377	1,243
Other	3,207	3,441
Total	\$ 16,144	\$ 16,492

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

	May 31, 2013	August 31, 2012
Accrued bonuses	\$ 5,420	\$ 1,034
Accrued payroll	2,455	1,802
Accrued profit sharing	1,445	1,714
Accrued payroll taxes	1,227	892
Other	463	462
Total	\$ 11,010	\$ 5,904

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

	May 31, 2013	August 31, 2012
Supplemental employee retirement plan benefits liability	\$ 555	\$ 598
Other income taxes payable	1,292	1,297
Other	218	61
Total	\$ 2,065	\$ 1,956

#### Note 8. 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 will incur 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, 2013, the Company borrowed an additional \$18.0 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, however the balance on these draws has remained within a short-term classification as a result of these conversions. As of May 31, 2013, the Company had a \$63.0 million outstanding balance on the revolving credit facility and was in compliance with all debt covenants under this credit facility.

#### Note 9. Share Repurchase Plan

On December 13, 2011, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect through December 12, 2013, the Company is authorized to acquire up to \$50.0 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 in compliance with all laws and regulations applicable thereto. During the period from December 14, 2011 through May 31, 2013, the Company repurchased 897,940 shares at a total cost of \$43.5 million.

#### Note 10. 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,	
	2013	2012	2013	2012
Net income	\$ 10,267	\$ 9,136	\$ 31,672	\$ 26,512
Less: Net income allocated to participating securities	(54)	(39)	(153)	(112)
Net income available to common shareholders	\$ 10,213	\$ 9,097	\$ 31,519	\$ 26,400

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		Nine Months	
	Ended May 31,		Ended May 31,	
	2013	2012	2013	2012
Weighted-average common shares outstanding, basic	15,460	15,872	15,579	15,966
Weighted-average dilutive securities	101	136	103	128
Weighted-average common shares outstanding, diluted	15,561	16,008	15,682	16,094

There were no anti-dilutive stock options outstanding for the three and nine months ended May 31, 2013 and 2012.

#### Note 11. 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 \$0.3 million and \$0.6 million for the three and nine months ended May 31, 2013, respectively, and \$0.2 million and \$0.4 million for the three and nine months ended May 31, 2012, respectively. Accounts receivable from Tractor Supply were \$0.1 million as of May 31, 2013.



## Note 12. 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 \$1.9 million of inventory which is included in inventories in the Company's condensed consolidated balance sheet as of May 31, 2013. This obligation amount was higher at August 31, 2012 but the Company has been taking delivery of this inventory over the last several months.

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, 2013, 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 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. The Company believes the case is without merit and will vigorously defend this matter. The Company's estimate of possible loss relative to this matter is immaterial with respect to the Company's consolidated financial statements.

## 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, 2013.

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, 2013.

## Note 13. 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 30.6% and 29.0% of income before income taxes for the three months ended May 31, 2013 and 2012, respectively and 30.6% and 29.3% of income before income taxes for the nine months ended May 31, 2013 and 2012, respectively. The increase in the effective income tax rate from period to period for both the three months and nine months was primarily driven by the release of uncertain tax position reserves associated with expiring statutes in fiscal year 2012 that did not reoccur in the current fiscal year.

The total amount of unrecognized tax benefits, excluding associated interest and penalties, was \$0.9 million as of May 31, 2013, of which \$0.7 million would impact the effective tax rate if recognized. The gross liability for income taxes related to unrecognized tax benefits is included in other long-term liabilities in the Company's condensed consolidated

balance sheets.

The total balance of accrued interest and penalties related to uncertain tax positions was \$0.3 million as of May 31, 2013 and August 31, 2012. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense and the accrued interest and penalties are included in deferred and other long-term liabilities in the Company's condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for each of the three and nine months ended May 31, 2013 and 2012.

During the three months ended May 31, 2013, the Company released a portion of its reserve for uncertain tax positions, excluding interest, of \$0.2 million associated primarily with the expiration of the statute of limitations for years in which the Company recorded a reserve for uncertain tax positions for state tax purposes. This benefit was partially offset by a charge to tax expense for \$0.1 million, excluding interest, relating to a reserve for uncertain tax positions in the current fiscal year.

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 2010 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 2009 are no longer subject to examination. The Company has estimated that up to \$0.2 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 14. 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 based on geographic location. Segment data does not include inter-segment revenues and incorporates corporate expenses into the Americas segment. All such corporate expenses are not allocated to other segments because the Company's segments are run independently. As a result, there are few costs that could be considered only corporate expenses that would qualify for allocation to other segments. The most significant portion of corporate expenses relates to the Americas segment both as a percentage of time and sales. Therefore, any allocation to other segments would be arbitrary.

Summary information about reportable segments is as follows (in thousands):

As of and for the Three Months Ended May 31:	Americas	Europe	Asia-Pacific	Total
2013				
Net sales	\$ 47,677	\$ 32,462	\$ 12,964	\$ 93,103
Income from operations <sup>(1)</sup>	\$ 5,967	\$ 6,715	\$ 2,276	\$ 14,958
Depreciation and amortization expense	\$ 1,033	\$ 240	\$ 54	\$ 1,327
Interest income	\$ -	\$ 74	\$ 31	\$ 105
Interest expense	\$ 179	\$ -	\$ 3	\$ 182
Total assets	\$ 193,129	\$ 109,278	\$ 18,084	\$ 320,491
2012				
Net sales	\$ 43,972	\$ 30,100	\$ 12,950	\$ 87,022
Income from operations <sup>(1)</sup>	\$ 3,637	\$ 7,221	\$ 2,282	\$ 13,140
Depreciation and amortization expense	\$ 887	\$ 281	\$ 48	\$ 1,216
Interest income	\$ -	\$ 33	\$ 28	\$ 61
Interest expense	\$ 157	\$ -	\$ 2	\$ 159
Total assets	\$ 184,105	\$ 96,195	\$ 16,394	\$ 296,694

(1) Income from operations for the Americas segment included corporate expenses of \$4.9 million and \$5.0 million for the three months ended May 31, 2013 and 2012, respectively.

As of and for the Nine Months Ended May 31:	Americas	Europe	Asia-Pacific	Total
2013				
Net sales	\$ 133,249	\$ 100,107	\$ 41,723	\$ 275,079
Income from operations <sup>(2)</sup>	\$ 14,363	\$ 22,666	\$ 8,229	\$ 45,258
Depreciation and amortization expense	\$ 2,905	\$ 717	\$ 143	\$ 3,765
Interest income	\$ 1	\$ 252	\$ 109	\$ 362

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Interest expense	\$ 476	\$ -	\$ 7	\$ 483
Total assets	\$ 193,129	\$ 109,278	\$ 18,084	\$ 320,491

2012

Net sales	\$ 130,622	\$ 88,227	\$ 39,084	\$ 257,933
Income from operations <sup>(2)</sup>	\$ 12,571	\$ 17,963	\$ 7,615	\$ 38,149
Depreciation and amortization expense	\$ 2,567	\$ 989	\$ 135	\$ 3,691
Interest income	\$ 1	\$ 90	\$ 91	\$ 182
Interest expense	\$ 478	\$ -	\$ 6	\$ 484
Total assets	\$ 184,105	\$ 96,195	\$ 16,394	\$ 296,694