

WD 40 CO  
Form 10-Q  
January 09, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended November 30, 2007

Commission File No. 000-06936

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**WD-40 COMPANY**

(Exact Name of Registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-1797918**  
(I.R.S. Employer  
Identification Number)

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

**92110**  
(Zip Code)

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

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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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of December 31, 2007, 16,952,477 shares of the Registrant's Common Stock were outstanding.

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**Part I Financial Information****ITEM 1. Financial Statements****WD-40 Company****Consolidated Condensed Balance Sheets****(unaudited)**

|   | November 30, 2007                          | August 31,<br>2007    |
|---|--|-----------------------|
| <b><u>Assets</u></b>  |  |                       |
| Current assets:   |  |                       |
| Cash and cash equivalents   | \$ 50,364,000                              | \$ 61,078,000         |
| Trade accounts receivable, less allowance for doubtful accounts of \$352,000 and \$369,000                            | 47,377,000                                 | 47,204,000            |
| Product held at contract packagers  | 1,617,000                                  | 1,447,000             |
| Inventories   | 15,673,000                                 | 13,208,000            |
| Current deferred tax assets, net  | 4,155,000                                  | 4,145,000             |
| Other current assets  | 5,297,000                                  | 3,489,000             |
| <b>Total current assets</b>   | <b>124,483,000</b>                         | <b>130,571,000</b>    |
| Property, plant and equipment, net  | 9,238,000                                  | 8,811,000             |
| Goodwill  | 96,514,000                                 | 96,409,000            |
| Other intangibles, net  | 42,527,000                                 | 42,543,000            |
| Investment in related party   | 1,056,000                                  | 1,015,000             |
| Other assets  | 3,763,000                                  | 3,837,000             |
|   | <b>\$ 277,581,000</b>                      | <b>\$ 283,186,000</b> |
| <b><u>Liabilities and Shareholders' Equity</u></b>  |  |                       |
| Current liabilities:  |  |                       |
| Current portion of long-term debt   | \$ 10,714,000                              | \$ 10,714,000         |
| Accounts payable  | 18,825,000                                 | 21,854,000            |
| Accounts payable to related party   | 2,771,000                                  | 1,506,000             |
| Accrued liabilities   | 13,271,000                                 | 12,780,000            |
| Accrued payroll and related expenses  | 4,350,000                                  | 6,906,000             |
| Income taxes payable  | 871,000                                    | 97,000                |
| <b>Total current liabilities</b>  | <b>50,802,000</b>                          | <b>53,857,000</b>     |
| Long-term debt  | 32,143,000                                 | 42,857,000            |
| Deferred employee benefits and other long-term liabilities  | 4,778,000                                  | 2,195,000             |
| Long-term deferred tax liabilities, net   | 15,602,000                                 | 16,005,000            |
| <b>Total liabilities</b>  | <b>103,325,000</b>                         | <b>114,914,000</b>    |
| Shareholders' equity:   |  |                       |
| Common stock, \$.001 par value, 36,000,000 shares authorized issued; and 16,951,732 and 16,848,601 shares outstanding | 17,986,430 and 17,883,299 shares<br>18,000 | 18,000                |
| Paid-in capital   | 78,281,000                                 | 74,836,000            |
| Retained earnings   | 119,711,000                                | 118,260,000           |
| Accumulated other comprehensive income  | 8,592,000                                  | 7,504,000             |
| Common stock held in treasury, at cost (1,034,698 shares)   | (32,346,000)                               | (32,346,000)          |

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|                            |                |                |
|----------------------------|----------------|----------------|
| Total shareholders' equity | 174,256,000    | 168,272,000    |
|                            | \$ 277,581,000 | \$ 283,186,000 |

(See accompanying notes to unaudited consolidated condensed financial statements.)

## WD-40 Company

Consolidated Condensed Statements of Operations(unaudited)

|   | <b>Three Months Ended November 30,</b> |                   |
|---|--|-------------------|
|   | <b>2007</b>                            | <b>2006</b>       |
| Net sales   | \$ 79,150,000                          | \$ 71,956,000     |
| Cost of products sold (including cost of products acquired from related party of \$6,681,000 and \$5,191,000 for the three months ended November 30, 2007 and 2006, respectively) | 41,680,000                             | 37,483,000        |
| <b>Gross profit</b>   | <b>37,470,000</b>                      | <b>34,473,000</b> |
| Operating expenses:   |  |                   |
| Selling, general and administrative   | 21,224,000                             | 19,055,000        |
| Advertising and sales promotion   | 6,640,000                              | 5,642,000         |
| Amortization of intangible asset  | 152,000                                | 141,000           |
| Income from operations  | 9,454,000                              | 9,635,000         |
| Other (expense) income:   |  |                   |
| Interest expense, net of interest income of \$530,000 and \$433,000 for the three months ended November 30, 2007 and 2006, respectively   | (406,000)                              | (681,000)         |
| Other income (expense), net   | 312,000                                | (91,000)          |
| Income before income taxes  | 9,360,000                              | 8,863,000         |
| Provision for income taxes  | 3,130,000                              | 3,169,000         |
| Net income  | \$ 6,230,000                           | \$ 5,694,000      |
| Earnings per common share:  |  |                   |
| Basic   | \$ 0.37                                | \$ 0.33           |
| Diluted   | \$ 0.36                                | \$ 0.33           |
| Weighted average common shares outstanding, basic   | 16,889,137                             | 17,022,286        |
| Weighted average common shares outstanding, diluted   | 17,092,792                             | 17,241,140        |
| Dividends declared per share  | \$ 0.25                                | \$ 0.22           |

(See accompanying notes to unaudited consolidated condensed financial statements.)

## WD-40 Company

Consolidated Condensed Statements of Cash Flows(unaudited)

|  | <b>Three Months Ended November 30,</b> |                      |
|--|--|----------------------|
|  | <b>2007</b>                            | <b>2006</b>          |
| <b>Cash flows from operating activities:</b>   |  |                      |
| Net income   | \$ 6,230,000                           | \$ 5,694,000         |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |  |                      |
| Depreciation and amortization  | 931,000                                | 924,000              |
| (Gains) losses on sales and disposals of property and equipment                          | (4,000)                                | 8,000                |
| Deferred income tax expense  | (535,000)                              | 550,000              |
| Excess tax benefits from exercise of stock options                                       | (147,000)                              | (71,000)             |
| Distributions received and equity (earnings) from related party, net                     | (41,000)                               | 30,000               |
| Stock-based compensation   | 493,000                                | 423,000              |
| <b>Changes in assets and liabilities:</b>  |  |                      |
| Trade accounts receivable  | 508,000                                | 4,517,000            |
| Product held at contract packagers   | (170,000)                              | 80,000               |
| Inventories  | (2,317,000)                            | (241,000)            |
| Other assets   | (1,799,000)                            | 720,000              |
| Accounts payable and accrued expenses  | (5,509,000)                            | 497,000              |
| Accounts payable to related party  | 1,265,000                              | 407,000              |
| Income taxes payable   | 995,000                                | 733,000              |
| Deferred employee benefits and other long-term liabilities                               | 2,006,000                              | 27,000               |
| <b>Net cash provided by operating activities</b>   | <b>1,906,000</b>                       | <b>14,298,000</b>    |
| <b>Cash flows from investing activities:</b>   |  |                      |
| Purchases of short-term investments  | (51,325,000)                           | (59,075,000)         |
| Sales of short-term investments  | 51,325,000                             | 59,075,000           |
| Capital expenditures   | (1,032,000)                            | (550,000)            |
| Proceeds from sales of property and equipment  | 41,000                                 | 39,000               |
| <b>Net cash used in investing activities</b>   | <b>(991,000)</b>                       | <b>(511,000)</b>     |
| <b>Cash flows from financing activities:</b>   |  |                      |
| Repayments of long-term debt   | (10,714,000)                           | (10,714,000)         |
| Proceeds from issuance of common stock   | 2,784,000                              | 1,633,000            |
| Excess tax benefits from exercise of stock options                                       | 147,000                                | 71,000               |
| Dividends paid   | (4,215,000)                            | (3,747,000)          |
| <b>Net cash used in financing activities</b>   | <b>(11,998,000)</b>                    | <b>(12,757,000)</b>  |
| Effect of exchange rate changes on cash and cash equivalents                             | 369,000                                | 200,000              |
| <b>(Decrease) increase in cash and cash equivalents</b>                                  | <b>(10,714,000)</b>                    | <b>1,230,000</b>     |
| Cash and cash equivalents at beginning of period   | 61,078,000                             | 45,206,000           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 50,364,000</b>                   | <b>\$ 46,436,000</b> |

(See accompanying notes to unaudited consolidated condensed financial statements.)



**WD-40 Company**

**Consolidated Condensed Statements of Comprehensive Income**

**(unaudited)**

|  | <b>Three Months Ended November 30,</b> |              |
|--|--|--------------|
|  | <b>2007</b>                            | <b>2006</b>  |
| Net income   | \$ 6,230,000                           | \$ 5,694,000 |
| Other comprehensive income:  |  |              |
| Equity adjustment from foreign currency translation, net of tax provision (benefit) of \$45,000 and (\$24,000) for the three months ended November 30, 2007 and 2006, respectively | 1,088,000                              | 1,316,000    |
| Total comprehensive income   | \$ 7,318,000                           | \$ 7,010,000 |

(See accompanying notes to unaudited consolidated condensed financial statements.)



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**WD-40 COMPANY**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**November 30, 2007**

**(unaudited)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

WD-40 Company (the Company), based in San Diego, California, markets two lubricant brands known as WD-40® and 3-IN-ONE Oil®, two heavy-duty hand cleaner brands known as Lava® and Solvol®, and six household product brands known as X-14® hard surface cleaners 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 and 1001® carpet and household cleaners and rug and room deodorizers.

The Company's brands are sold in various locations around the world. Lubricant brands are sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Household product brands are currently sold primarily in North America, the U.K., Australia and the Pacific Rim. Heavy-duty hand cleaner brands are sold primarily in the U.S. and Australia.

**Principles of Consolidation**

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

**Financial Statement Presentation**

The financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The August 31, 2007 year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, the unaudited financial information for the interim periods shown reflects all adjustments necessary for a fair presentation thereof. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended August 31, 2007.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**Short-term Investments**

Periodically, the Company invests in short-term investments. These short-term investments consist of investment grade auction rate securities classified as available-for-sale and reported at fair value with maturities that could range from 13 months to 30 years. The interest rates are reset through an auction bidding process at predetermined periods ranging from 7 to 35 days. Due to the frequent nature of the reset feature, the realized or unrealized gains or losses associated with these securities are not significant; therefore, auction rate securities are stated at cost, which approximates fair value. Purchase and sale activity of short-term investments is presented as cash flows from investing activities in the consolidated statements of cash flows. As of November 30, 2007 and August 31, 2007, the Company did not carry any short-term investments.

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

**Sales Concentration**

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 and 9 percent of the Company's consolidated net sales during the three months ended November 30, 2007 and 2006, respectively. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 3 percent and 4 percent during the three months ended November 30, 2007 and 2006, respectively.

**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.

U.S. income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested in accordance with Accounting Principles Board Opinion No. 23, Accounting for Income Taxes, Special Areas. The Company determines whether its foreign subsidiaries will invest their undistributed earnings indefinitely based on the capital needs of the foreign subsidiaries. The Company periodically reassesses this determination. Changes to the Company's determination may be warranted based on the Company's experience as well as plans regarding future international operations and expected remittances.

Significant judgment is required in determining our consolidated income tax provision and evaluating our U.S. and foreign tax positions. In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. An interpretation of FASB Statement No. 109, which became effective for the Company at the beginning of its fiscal year ending August 31, 2008. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. As a result of FIN 48, the Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

**Earnings per Common Share**

Basic earnings per common share is calculated by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income 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. Dilutive securities are comprised of options granted under the Company's stock option plan. The schedule below summarizes the weighted average number of common shares outstanding included in the calculation of basic and diluted earnings per common share for the periods ended November 30, 2007 and 2006:

|   | <b>Three Months Ended November 30,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                            | <b>2006</b> |
| Weighted average common shares outstanding:         |  |             |
| Weighted average common shares outstanding, basic   | 16,889,137                             | 17,022,286  |
| Weighted average dilutive securities                | 203,655                                | 218,854     |
| Weighted average common shares outstanding, diluted | 17,092,792                             | 17,241,140  |

For the three months ended November 30, 2007, there were no weighted average options outstanding that were excluded from the calculation of diluted EPS as a result of the options having an exercise price greater than or equal to the average market value of the Company's common stock during the period. For the three months ended November 30, 2006, there were 132,280 weighted average options outstanding that were excluded from the calculation of diluted EPS as a result of the options having an exercise price greater than or equal to the average market value of the Company's common stock during the period.

For the three months ended November 30, 2007, weighted average options outstanding totaling 428,338 were excluded from the calculation of diluted EPS under the treasury stock method as they were anti-dilutive. These options were anti-dilutive as a result of the assumed proceeds from (i) amounts option holders must pay for exercising stock options, (ii) the amount of compensation costs for future service that the Company has not yet recognized as expense, and (iii) the amount of tax benefits that would be recorded in additional paid-in capital upon exercise of the options. For the three months ended November 30, 2006, there were no additional anti-dilutive weighted average options outstanding excluded from the calculation of diluted EPS under the treasury stock method.

**Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*. Management is currently evaluating the impact that the implementation of SFAS No. 159 may have on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is currently evaluating SFAS No. 157 to determine the impact, if any, on the Company's consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

**NOTE 2 - GOODWILL AND OTHER INTANGIBLES**

Goodwill and other intangibles principally relate to the excess of the purchase price over the fair value of tangible assets acquired. Goodwill and intangible assets that have indefinite useful lives are tested at least annually for impairment during the Company's second fiscal quarter and otherwise as may be required. During the second quarter of fiscal year 2007, the Company tested its goodwill and indefinite-lived intangible assets for impairment. Based on this test, the Company determined that there were no instances of impairment.

The Company tests for goodwill impairment based on the SFAS No. 142 goodwill impairment model, which is a two-step process. First, the impairment model requires comparison of the book value of net assets to the fair value of the related reporting units that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of impairment. In the second step, the implied fair value of goodwill is estimated as the fair value of the reporting unit used in the first step less the fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of goodwill exceeds its implied fair market value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. The Company tests for impairment of intangible assets with indefinite useful lives in accordance with SFAS No. 142 based on discounted future cash flows compared to the related book values. 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 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.

In addition to the annual impairment tests, goodwill and intangible assets with indefinite lives are evaluated each reporting period. 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 with indefinite lives are evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life and to determine whether any indicators of impairment exist. Indicators such as underperformance relative to historical or projected future operating results, changes in the Company's strategy for its overall business or use of acquired assets, decline in the Company's stock price for a sustained period, unexpected adverse industry or economic trends, unanticipated technological change or competitive activities, loss of key distribution, change in consumer demand, loss of key personnel and acts by governments and courts may signal that an asset has become impaired.

Intangible assets with definite lives are amortized over their useful lives and are also evaluated each reporting period to determine whether events and circumstances continue to support their remaining useful lives.

**Acquisition-related Goodwill**

Changes in the carrying amounts of goodwill by segment for the three months ended November 30, 2007 are summarized below:

|  | Acquisition-related Goodwill |              |              | Total         |
|--|------------------------------|--------------|--------------|---------------|
|  | Americas                     | Europe       | Asia-Pacific |               |
| <b>Balance as of August 31, 2007</b>   | \$ 85,709,000                | \$ 9,487,000 | \$ 1,213,000 | \$ 96,409,000 |
| Translation adjustments                | 16,000                       | 89,000       |              | 105,000       |
| <b>Balance as of November 30, 2007</b> | \$ 85,725,000                | \$ 9,576,000 | \$ 1,213,000 | \$ 96,514,000 |

**Indefinite-lived Intangible Assets**

Intangible assets, excluding goodwill, which are not amortized as they have been determined to have indefinite lives, consist of the trade names Carpet Fresh, X-14, 2000 Flushes, Spot Shot and 1001.



## NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

Changes in the carrying amounts of indefinite-lived intangibles by segment for the three months ended November 30, 2007 are summarized below:

|  | Indefinite-lived Intangibles |              |              | Total         |
|--|------------------------------|--------------|--------------|---------------|
|  | Americas                     | Europe       | Asia-Pacific |               |
| <b>Balance as of August 31, 2007</b>   | \$ 35,700,000                | \$ 4,093,000 | \$           | \$ 39,793,000 |
| Translation adjustments                |                              | 82,000       |              | 82,000        |
| <b>Balance as of November 30, 2007</b> | \$ 35,700,000                | \$ 4,175,000 | \$           | \$ 39,875,000 |

**Definite-lived Intangible Asset**

The Company's definite-lived intangible asset consists of certain non-contractual customer relationships acquired in the fiscal year 2004 acquisition of the 1001 line of products. This definite-lived intangible asset is included in the Europe segment and is being amortized on a straight-line basis over its estimated eight-year life. The following table summarizes the non-contractual customer relationships intangible asset and the related amortization:

|                          | As of November 30, 2007 | As of August 31, 2007 |
|--------------------------|-------------------------|-----------------------|
| Gross carrying amount    | \$ 4,895,000            | \$ 4,800,000          |
| Accumulated amortization | (2,243,000)             | (2,050,000)           |
| Net carrying amount      | \$ 2,652,000            | \$ 2,750,000          |

|                      | Three Months Ended November 30, |            |
|----------------------|---------------------------------|------------|
|                      | 2007                            | 2006       |
| Amortization expense | \$ 152,000                      | \$ 141,000 |

The estimated amortization expense for the non-contractual customer relationships intangible asset is based on current foreign currency exchange rates, and amounts in future periods may differ from those presented due to fluctuations in those rates. The estimated amortization for the non-contractual customer relationships intangible asset in future fiscal years is as follows:

|                               |              |
|-------------------------------|--------------|
| Remainder of fiscal year 2008 | \$ 459,000   |
| Fiscal year 2009              | 612,000      |
| Fiscal year 2010              | 612,000      |
| Fiscal year 2011              | 612,000      |
| Fiscal year 2012              | 357,000      |
|                               | \$ 2,652,000 |

Changes in the carrying amount of definite-lived intangibles by segment for the three months ended November 30, 2007 are summarized below:

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|  | Definite-lived Intangibles |              |              | Total        |
|--|----------------------------|--------------|--------------|--------------|
|  | Americas                   | Europe       | Asia-Pacific |              |
| <b>Balance as of August 31, 2007</b>   | \$                         | \$ 2,750,000 | \$           | \$ 2,750,000 |
| Amortization                           |                            | (152,000)    |              | (152,000)    |
| Translation adjustments                |                            | 54,000       |              | 54,000       |
| <b>Balance as of November 30, 2007</b> | \$                         | \$ 2,652,000 | \$           | \$ 2,652,000 |

## NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

## NOTE 3 - SELECTED FINANCIAL STATEMENT INFORMATION

|  | As of<br>November 30, 2007 | As of<br>August 31, 2007 |
|--|----------------------------|--------------------------|
| <b>Inventories</b>                               |                            |                          |
| Raw materials and components                     | \$ 1,479,000               | \$ 1,004,000             |
| Work-in-process                                  | 1,368,000                  | 1,455,000                |
| Finished goods                                   | 12,826,000                 | 10,749,000               |
|  | \$ 15,673,000              | \$ 13,208,000            |
| <b>Other Current Assets</b>                      |                            |                          |
| Prepaid expenses and other                       | \$ 5,137,000               | \$ 3,459,000             |
| Federal income taxes receivable                  | 160,000                    | 30,000                   |
|  | \$ 5,297,000               | \$ 3,489,000             |
| <b>Property, Plant and Equipment, net</b>        |                            |                          |
| Land   | \$ 602,000                 | \$ 597,000               |
| Buildings and improvements                       | 4,606,000                  | 4,559,000                |
| Furniture and fixtures                           | 1,128,000                  | 1,129,000                |
| Computer and office equipment                    | 4,180,000                  | 3,937,000                |
| Software   | 3,710,000                  | 3,647,000                |
| Machinery, equipment and vehicles                | 8,414,000                  | 7,663,000                |
|  | 22,640,000                 | 21,532,000               |
| Less: accumulated depreciation                   | (13,402,000)               | (12,721,000)             |
|  | \$ 9,238,000               | \$ 8,811,000             |
| <b>Accrued Liabilities</b>                       |                            |                          |
| Accrued advertising and sales promotion expenses | \$ 7,544,000               | \$ 7,938,000             |
| Other  | 5,727,000                  | 4,842,000                |
|  | \$ 13,271,000              | \$ 12,780,000            |
| <b>Accrued Payroll and Related Expenses</b>      |                            |                          |
| Accrued bonus                                    | \$ 708,000                 | \$ 3,185,000             |
| Accrued profit sharing                           | 1,818,000                  | 1,402,000                |
| Accrued payroll                                  | 1,058,000                  | 1,265,000                |
| Accrued payroll taxes                            | 516,000                    | 832,000                  |
| Other  | 250,000                    | 222,000                  |
|  | \$ 4,350,000               | \$ 6,906,000             |



**Deferred Employee Benefits and Other Long-term Liabilities**

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Supplemental employee retirement liability | \$ | 2,060,000 | \$ | 2,030,000 |
| Other income taxes payable                 |    | 2,503,000 |    |           |
| Other                                      |    | 215,000   |    | 165,000   |
|  | \$ | 4,778,000 | \$ | 2,195,000 |

**NOTE 4 - STOCK REPURCHASE PLAN**

On March 27, 2007, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect for up to twelve months, the Company is authorized to acquire up to \$35.0 million of the Company's outstanding shares. As of November 30, 2007, the Company has acquired 500,000 shares at a total cost of \$17.3 million under the plan.

Prior to the current share buy-back plan described above, the Company had 534,698 shares of common stock held in treasury at a total cost of \$15.0 million. These shares were the result of the Company's share buy-back plan that was completed in fiscal year 2004.

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

**NOTE 5 - RELATED PARTIES**

VML Company L.L.C. (VML), a Delaware Limited Liability Company, was formed in April 2001, at which time the Company acquired a 30% membership interest. Since formation, VML has served as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company. Although VML has begun to expand its business to other customers, the Company continues to be its largest customer. VML makes profit distributions to the Company and the 70% owner on a discretionary basis in proportion to each party's respective interest.

The Company has a put option to sell its interest in VML to the 70% owner, and the 70% owner has a call option to purchase the Company's interest. The sale price in each case is established pursuant to formulas based on VML's operating results.

Under Financial Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, VML qualifies as a variable interest entity, and it has been determined that the Company is not the primary beneficiary. The Company's investment in VML is accounted for using the equity method of accounting, and its equity in VML earnings or losses is recorded as a component of cost of products sold, as VML acts primarily as a contract manufacturer to the Company. The Company recorded equity earnings related to its investment in VML of \$41,000 and \$6,000 for the three months ended November 30, 2007 and 2006, respectively.

The Company's maximum exposure to loss as a result of its involvement with VML was \$1.1 million as of November 30, 2007. This amount represents the balance of the Company's equity investment in VML, which is presented as investment in related party on the Company's consolidated balance sheets. The Company's investment in VML as of August 31, 2007 was \$1.0 million.

Cost of products sold which were purchased from VML, net of rebates and equity earnings, was approximately \$6.7 million and \$5.2 million during the three months ended November 30, 2007 and 2006, respectively. The Company had product payables to VML of \$2.8 million and \$1.5 million at November 30, 2007 and August 31, 2007, respectively. Additionally, the Company receives rental income from VML, which is recorded as a component of other income (expense), net. Rental income from VML was \$48,000 during each of the three months ended November 30, 2007 and 2006.

During the first quarter of fiscal year 2008, the Company acquired an additional \$0.8 million of certain finished goods manufactured by VML, which had previously been owned and warehoused by VML under the Company's historical contract manufacturer model. As the Company transitioned to direct management of these finished goods, it acquired inventory from VML to supply its distribution centers. The Company will continue to acquire the inventory manufactured by VML to supply its distribution centers.

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

The Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business. With the possible exception of the legal proceedings discussed below, management is of the opinion that none of these matters is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows.

On April 19, 2006, a legal action was filed against the Company in the United States District Court, Southern District of California (*Drimmer v. WD-40 Company*). After several of the plaintiff's factual claims were dismissed by way of motion, the plaintiff filed an amended complaint on September 20, 2006, seeking class action status and alleging that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. On August 24, 2007, the Company successfully defeated the plaintiff's attempt to have the case certified as

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

a class action. The plaintiff has been granted permission to appeal the District Court's decision. If the plaintiff is successful in an appeal and class action certification is granted in this aforementioned legal action, it is reasonably possible that the outcome could have a material adverse effect on the operating results, financial position and cash flows of the Company. There is not sufficient information to estimate the Company's exposure at this time.

The Company has been named as a defendant in an increasing number of lawsuits brought by a growing group of attorneys on behalf of individual plaintiffs who assert that exposure to products that allegedly contain benzene is a cause of certain cancers. The Company is one of many defendants in these legal proceedings whose products are alleged to contain benzene. However, the Company specifies that its suppliers provide constituent ingredients free of benzene, and the Company believes its products have always been formulated without containing benzene. Except for self-insured retention amounts applicable to each separately filed lawsuit, the Company expects that the benzene lawsuits will be adequately covered by insurance and will not have a material impact on the Company's financial condition or results of operations. The Company is vigorously defending these lawsuits in an effort to demonstrate conclusively that its products do not contain benzene, and that they have not contained benzene in prior years. The Company is unable to assess the expected cost of defense of these lawsuits in future periods. If the number of benzene lawsuits filed against the Company continues to increase, it is reasonably possible that such costs of defense may materially affect the Company's results of operations and cash flows in future periods.

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. No liabilities have been recorded for these agreements as of November 30, 2007.

The Company has relationships with various suppliers (contract manufacturers) who manufacture the Company's products. Although the Company does not have any definitive minimum purchase obligations included in the contract terms with the contract manufacturers, supply needs are communicated and the Company is committed to purchase the products produced based on orders and short-term projections provided to the contract manufacturers, ranging from two to five months. The Company is also obligated to purchase obsolete or slow-moving inventory. The Company has purchased inventory under these commitments, the amounts of which have not been material.

In addition to the commitments to purchase products from contract manufacturers described above, the Company has also entered into commitments with other manufacturers to purchase finished goods and components of \$2.9 million in fiscal year 2008.

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. No liabilities have been recorded with respect to such indemnification agreements as of November 30, 2007.

**NOTE 7 - INCOME TAXES**

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. An interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income*

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**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position must be recognized in the financial statements at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a fifty percent likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 effective September 1, 2007. The cumulative effect of adopting FIN 48 resulted in a decrease of \$0.6 million to the September 1, 2007 balance of retained earnings. At November 30, 2007, the Company's gross liability for income taxes related to unrecognized tax benefits totaled \$2.5 million and is included in other long-term liabilities in the Company's consolidated balance sheet. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's tax rate was \$1.8 million at November 30, 2007.

As a result of FIN 48, the Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest of \$0.3 million is included in the \$2.5 million of gross unrecognized tax benefits referenced above.

The Company is subject to taxation in the U.S., various states and foreign jurisdictions. The Company currently has no years under examination by the U.S. Internal Revenue Service and is not subject to examination for years prior to fiscal year 2004. The Company is currently under audit in various state and local jurisdictions for fiscal years 1996 through 1999 and fiscal years 2003 through 2005. The Company is also currently under audit in a foreign jurisdiction for fiscal years 2005 and 2006. The Company estimates that up to \$0.5 million of unrecognized tax benefits relate to income tax positions that may be affected by the resolution of tax examinations or expiring statutes of limitation.

During the first quarter of fiscal year 2008, the Company recorded liabilities related to unrecognized tax benefits of \$0.1 million in the current fiscal year.

**NOTE 8 - BUSINESS SEGMENTS AND FOREIGN OPERATIONS**

The Company evaluates the performance of its segments and allocates resources to them based on sales, operating income and expected return. The Company is organized based on geographic location. Segment data does not include inter-segment revenues and incorporates costs from corporate headquarters into the Americas segment, without allocation to other segments. The Company's segments are run independently, and as a result, there are few costs that could be considered only costs from headquarters that would qualify for allocation to other segments. The most significant portions of costs from headquarters relate to the Americas segment both as a percentage of time and sales. Therefore, any allocation to other segments would be arbitrary.

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(continued)

The tables below present information about reportable segments and net sales by product line for the three months ended November 30:

|                                       | Americas                    | Europe        | Asia-Pacific | Total          |
|---------------------------------------|-----------------------------|---------------|--------------|----------------|
| <b>2007</b>                           |                             |               |              |                |
| Net sales                             | \$ 43,555,000               | \$ 28,396,000 | \$ 7,199,000 | \$ 79,150,000  |
| Income from operations                | \$ 3,738,000 <sup>(1)</sup> | \$ 4,535,000  | \$ 1,181,000 | \$ 9,454,000   |
| Depreciation and amortization expense | \$ 526,000                  | \$ 362,000    | \$ 43,000    | \$ 931,000     |
| Interest income                       | \$ 325,000                  | \$ 196,000    | \$ 9,000     | \$ 530,000     |
| Interest expense                      | \$ 932,000                  | \$            | \$ 4,000     | \$ 936,000     |
| Total assets                          | \$ 200,548,000              | \$ 67,448,000 | \$ 9,585,000 | \$ 277,581,000 |
| <b>2006</b>                           |                             |               |              |                |
| Net sales                             | \$ 45,144,000               | \$ 21,886,000 | \$ 4,926,000 | \$ 71,956,000  |
| Income from operations                | \$ 4,939,000 <sup>(1)</sup> | \$ 4,138,000  | \$ 558,000   | \$ 9,635,000   |
| Depreciation and amortization expense | \$ 566,000                  | \$ 332,000    | \$ 26,000    | \$ 924,000     |
| Interest income                       | \$ 328,000                  | \$ 101,000    | \$ 4,000     | \$ 433,000     |
| Interest expense                      | \$ 1,114,000                | \$            | \$           | \$ 1,114,000   |
| Total assets                          | \$ 203,422,000              | \$ 56,425,000 | \$ 5,741,000 | \$ 265,588,000 |

<sup>(1)</sup> For the three months ended November 30, 2007 and 2006, income from operations for the Americas segment includes costs from headquarters of \$3.8 million and \$3.6 million, respectively.

**Product Line Information**

|                    | Net Sales     |               |
|--------------------|---------------|---------------|
|                    | 2007          | 2006          |
| Lubricants         | \$ 57,317,000 | \$ 48,904,000 |
| Household products | 20,125,000    | 21,342,000    |
| Hand cleaners      | 1,708,000     | 1,710,000     |
|                    | \$ 79,150,000 | \$ 71,956,000 |

**NOTE 9 - SUBSEQUENT EVENTS**

On December 11, 2007, the Company's Board of Directors declared a cash dividend of \$0.25 per share payable on January 31, 2008 to shareholders of record on January 8, 2008.

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis (MD&A) is provided as a supplement to, and should be read in conjunction with, the Company's audited consolidated financial statements, the accompanying notes, and the MD&A included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

In MD&A, we, our, us, and the Company refer to WD-40 Company and its wholly-owned subsidiaries, unless the context requires otherwise. Amounts and percents in tables and discussions may not total due to rounding.

**OVERVIEW**

The Company markets two lubricant brands known as WD-40® and 3-IN-ONE Oil®, two heavy-duty hand cleaner brands known as Lava® and Solvol®, and six household product brands known as X-14® hard surface cleaners 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 and 1001® carpet and household cleaners and rug and room deodorizers. These brands are sold in various locations around the world. Lubricant brands are sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Household product brands are currently sold primarily in North America, the U.K., Australia and the Pacific Rim. Heavy-duty hand cleaner brands are sold primarily in the U.S. and Australia.

**SUMMARY STATEMENT OF OPERATIONS**

(dollars in thousands, except per share amounts)

|                                     | <b>Three Months Ended November 30,</b> |             |                 |
|-------------------------------------|--|-------------|-----------------|
|                                     | <b>2007</b>                            | <b>2006</b> | <b>% Change</b> |
| Net sales                           | \$ 79,150                              | \$ 71,956   | 10%             |
| Gross profit                        | \$ 37,470                              | \$ 34,473   | 9%              |
| Income from operations              | \$ 9,454                               | \$ 9,635    | (2)%            |
| Net income                          | \$ 6,230                               | \$ 5,694    | 9%              |
| Earnings per common share (diluted) | \$ 0.36                                | \$ 0.33     | 10%             |

**HIGHLIGHTS**

*In the first quarter, sales in Europe and Asia-Pacific increased 30% and 46%, respectively, compared to the prior fiscal year first quarter, partially offset by a sales decrease of 4% in the Americas.*

*In the first quarter, lubricant sales were up 17%, household product sales were down 6%, and hand cleaner sales were flat versus the first quarter of the prior fiscal year.*

*Changes in foreign currency exchange rates compared to the prior fiscal year first quarter contributed to the increase in our sales as well as the increase in our expenses. The current fiscal year first quarter results translated at last fiscal year's first quarter exchange rates would have produced sales of \$76.4 million and net income of \$5.9 million. The impact of the change in foreign currency exchange rates period over period positively affected sales and net income for the current fiscal year first quarter by \$2.8 million and \$0.3 million, respectively.*

*The categories in which the Company's household products are sold are very competitive by nature. For the three months ended November 30, 2007, sales of the Company's household products in the U.S. were down 9% versus the prior fiscal year first quarter as a result of lost or decreased distribution and temporary supply chain disruptions. The temporary supply chain disruptions resulted in lost sales of approximately \$1.0 million. The decreases in the U.S. were partially offset by increases in Australia and Canada of 57% and 17%, respectively. These increases were primarily driven by growth of Carpet Fresh No Vac sales in Australia and Spot Shot sales in Canada.*



We continue to be concerned about rising costs of components and raw materials. In recent years, we have incurred continuing cost increases. To combat the rise in costs, the Company has implemented price increases on certain products during each of the last three fiscal years. In addition to price increases, the Company continues to address the rising costs through innovation and cost containment strategies.

We continue to be focused and committed to new product development under our brand names. We see innovation and renovation as important factors to the long-term success of our brands, and we intend to continue our commitment to work on future product, packaging and promotional innovations and renovations.

Selling, general and administrative (SG&A) expenses were up 11% during the first quarter of fiscal year 2008 compared to the prior fiscal year first quarter due to increased employee-related costs, freight costs, professional services and the impact of foreign currency exchange rate changes.

Advertising and sales promotion expenses were up 18% during the first quarter of fiscal year 2008 compared to the prior fiscal year first quarter due primarily to the timing of consumer broadcast advertising in the U.K. to support the 1001 brand. The Company expects its investment in global advertising and sales promotion expenses to be in the range of 6.5% to 8.5% of net sales for fiscal year 2008.

During fiscal year 2007, the Company began direct operations in China. Historically, the Company's sales in China were through third-party marketing distributors. For the three months ended November 30, 2007, sales in China increased 34% compared to the same period last fiscal year as the region benefited from the development of direct sales activity.

## RESULTS OF OPERATIONS

### First Quarter of Fiscal Year 2008 Compared to First Quarter of Fiscal Year 2007

#### Net Sales

| Net Sales by Segment<br>(in thousands) | Three Months Ended November 30, |                  |                 |            |
|--|---------------------------------|------------------|-----------------|------------|
|  | 2007                            | 2006             | \$ Change       | % Change   |
| Americas                               | \$ 43,555                       | \$ 45,144        | \$ (1,589)      | (4)%       |
| Europe                                 | 28,396                          | 21,886           | 6,510           | 30%        |
| Asia-Pacific                           | 7,199                           | 4,926            | 2,273           | 46%        |
| <b>Total net sales</b>                 | <b>\$ 79,150</b>                | <b>\$ 71,956</b> | <b>\$ 7,194</b> | <b>10%</b> |

Please refer to the discussion under Segment Results included later in this section for further detailed results by segment. Changes in foreign currency exchange rates compared to the same prior fiscal year period contributed to the increase in the Company's sales. The current fiscal year first quarter results translated at last fiscal year's first quarter exchange rates would have produced sales of \$76.4 million, thus, the impact of the change in foreign currency exchange rates period over period positively affected first quarter fiscal year 2008 sales by \$2.8 million, or 3.7%.

| Net Sales by Product Line<br>(in thousands) | Three Months Ended November 30, |                  |                 |            |
|---|---------------------------------|------------------|-----------------|------------|
|   | 2007                            | 2006             | \$ Change       | % Change   |
| Lubricants                                  | \$ 57,317                       | \$ 48,904        | \$ 8,413        | 17%        |
| Household products                          | 20,125                          | 21,342           | (1,217)         | (6)%       |
| Hand cleaners                               | 1,708                           | 1,710            | (2)             | (0)%       |
| <b>Total net sales</b>                      | <b>\$ 79,150</b>                | <b>\$ 71,956</b> | <b>\$ 7,194</b> | <b>10%</b> |



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By product line, sales of lubricants include WD-40 and 3-IN-ONE; sales of household products include Carpet Fresh, No Vac, X-14, 2000 Flushes, Spot Shot and 1001; and hand cleaner sales include Lava and Solvol.

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## Gross Profit

Gross profit was \$37.5 million, or 47.3% of sales in the first quarter of fiscal year 2008, compared to \$34.5 million, or 47.9% of sales in the first quarter of fiscal year 2007. The Company continued to experience increases in costs of products, which have negatively affected gross margins in all of the Company's regions. The rise in costs of products has been due to the significant increase in costs for components and raw materials, including aerosol cans and petroleum-based products, as well as a change in product mix. As a result of the general upward trend of costs in the market, we remain concerned about the possibility of continued rising costs of components, raw materials and finished goods.

To combat the rise in costs, the Company has implemented price increases on certain products worldwide. These price increases added approximately 0.8% to gross margin percentage in the first quarter of fiscal year 2008 compared to the first quarter of fiscal year 2007. Although the price increases helped to mitigate the impact of rising costs on gross margin percentage, the benefit from the price increases was more than offset by the continued cost increases, as well as changes in product mix. In addition to price increases, the Company continues to address the rising costs through innovation and cost containment strategies.

In general, shifts in product mix as well as the timing of advertising, promotional and other discounts, which are recorded as a reduction to sales, may cause fluctuations in gross margin percentage from period to period. Examples of advertising, promotional and other discounts include coupon redemptions, consideration and allowances given to retailers for space in their stores, consideration and allowances given to obtain favorable display positions in retailers' stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives.

Note that the Company's gross margins may not be comparable to those of other reporting entities, since some entities include all costs related to distribution of their products in cost of products sold, whereas we exclude the portion associated with amounts paid to third parties for distribution to our customers from our contract packagers, and include these costs in selling, general and administrative expenses.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) for the first quarter of fiscal year 2008 increased to \$21.2 million, or 26.8% of sales, from \$19.1 million, or 26.5% of sales, for the same prior fiscal year period. The increase in SG&A was largely attributable to increases in freight costs, employee-related costs, professional services costs and the impact of foreign currency translation. Freight costs increased \$0.9 million due to sales growth in the European and Asia-Pacific segments and to increased fuel costs across all regions. Employee-related costs, which include salaries, profit sharing, bonus and other fringe benefits, increased \$0.5 million versus the prior fiscal year first quarter as a result of annual compensation increases, additional staffing to support global sourcing and inventory management and the continued growth of direct operations in China. Costs for professional services increased \$0.3 million primarily as a result of increased legal costs. Also contributing to the increase in SG&A expenses was \$0.6 million related to foreign currency exchange rates. The current fiscal year first quarter SG&A expenses translated at last fiscal year's first quarter exchange rates would have produced total SG&A expenses of \$20.6 million. These increases were partially offset by a \$0.2 million decrease in miscellaneous expenses, such as commissions, insurance costs and travel costs.

The Company continued its research and development investment in support of its focus on innovation and renovation. Research and development costs in the current fiscal year first quarter were \$0.8 million compared to \$0.9 million in the prior fiscal year first quarter. The Company's new-product development team, known as Team Tomorrow, engages in consumer research, product development, current product improvement and testing activities. This team leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers.

## Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses increased to \$6.6 million for the first quarter of fiscal year 2008, up from

\$5.6 million for the first quarter of fiscal year 2007 and, as a percentage of sales, increased to 8.4% in the first quarter of fiscal year 2008 from 7.8% in the first quarter of fiscal year 2007. The increase was related to the timing of investment in advertising activities in the current fiscal year first quarter compared to the same period last year. In the current fiscal year first quarter, the Company increased its consumer broadcast advertising in Europe to support the 1001 brand. In the prior fiscal year first quarter, the Company had lower levels of marketing investment in Europe, as the Company did not begin its 1001 brand consumer broadcast advertising until the fourth quarter. Investment in global advertising and sales promotion expenses for fiscal year 2008 is expected to be in the range of 6.5% to 8.5% of sales.

As a percentage of sales, advertising and sales promotion expenses may fluctuate period to period based upon the type of marketing activities employed by the Company and the period in which the costs are incurred. The costs of certain promotional activities are required to be recorded as reductions to sales, while others remain in advertising and sales promotion expenses. In the first quarter of fiscal year 2008, the total promotional costs recorded as reductions to sales were \$5.2 million versus \$4.3 million in the first quarter of fiscal year 2007. Therefore, the Company's total investment in advertising and sales promotion activities totaled \$11.8 million in the current fiscal year first quarter versus \$9.9 million in the prior fiscal year first quarter.

#### **Amortization of Intangible Asset Expense**

Amortization of intangible asset expense was \$152,000 in the first quarter of fiscal year 2008, compared to \$141,000 in last fiscal year's first quarter. The amortization relates to the non-contractual customer relationships intangible asset acquired in the 1001 acquisition, which was completed in April 2004. This intangible asset is being amortized on a straight-line basis over its estimated eight-year life.

#### **Income from Operations**

Income from operations was \$9.5 million, or 11.9% of sales in the first quarter of fiscal year 2008, compared to \$9.6 million, or 13.4% of sales in the first quarter of fiscal year 2007. The decrease in income from operations was due to the items discussed above.

#### **Interest Expense, net**

Interest expense, net was \$0.4 million compared to \$0.7 million for the quarters ended November 30, 2007 and 2006, respectively. The change in interest expense, net was primarily due to the reduced principal balance on long-term borrowings resulting from the annual \$10.7 million principal payments made in October 2007 and October 2006.

#### **Other Income/Expense, net**

Other income, net was \$312,000 during the first quarter of fiscal year 2008, compared to other expense, net of \$91,000 in the prior fiscal year first quarter, an increase of \$403,000, which was due to foreign currency exchange gains in the current fiscal year first quarter compared to foreign currency exchange losses in the prior fiscal year first quarter. Other income/expense, net also includes rental income from VML Company L.L.C. (VML). The Company owns and rents a warehouse facility to VML in Memphis, Tennessee. VML serves as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company.

#### **Provision for Income Taxes**

The provision for income taxes was 33.4% of income before income taxes for the first quarter of fiscal year 2008, a decrease from 35.8% in the prior fiscal year first quarter. The decrease in tax rate was primarily due to the benefits from additional municipal bond interest, an increase in the benefits of IRC section 199 related to qualified production activities and to a decrease in foreign tax rates, along with one-time benefits associated with the settlement of certain state and foreign tax matters. These benefits were partially offset by the loss of the extraterritorial income (ETI) deduction and an increase in the current period liabilities associated with unrecognized state tax benefits resulting from the implementation of FIN 48.

**Net Income**

Net income was \$6.2 million, or \$0.36 per common share on a fully diluted basis for the first quarter of fiscal year 2008, compared to \$5.7 million, or \$0.33 per common share for the first quarter of fiscal year 2007. The change in foreign currency exchange rates period over period had a positive impact of \$0.3 million on first quarter fiscal year 2008 net income. Current fiscal year first quarter results translated at last fiscal year's first quarter foreign currency exchange rates would have produced net income of \$5.9 million.

**Segment Results**

Following is a discussion of sales by region for the current and prior fiscal year first quarters.

Americas

| Net Sales<br>(in thousands) | Three Months Ended November 30, |            |            |          |
|-----------------------------|---------------------------------|------------|------------|----------|
|                             | 2007                            | 2006       | \$ Change  | % Change |
| Lubricants                  | \$ 25,264                       | \$ 25,591  | \$ (327)   | (1)%     |
| Household products          | 16,913                          | 18,131     | (1,218)    | (7)%     |
| Hand cleaners               | 1,378                           | 1,422      | (44)       | (3)%     |
| Sub-total                   | \$ 43,555                       | \$ 45,144  | \$ (1,589) | (4)%     |
| <b>% of consolidated</b>    | <b>55%</b>                      | <b>63%</b> |            |          |

The slight decrease in lubricant sales in the Americas during the current fiscal year first quarter compared to last fiscal year's first quarter was the result of WD-40 sales declines in the U.S. and Canada, as sales decreased by 4% and 18%, respectively. Sales of WD-40 in the U.S. declined due to decreased promotions and inventory levels with key customers. Sales of WD-40 in Canada declined against strong sales performance in western Canada during the prior fiscal year first quarter. The declines in the U.S. and Canada were largely offset by growth in Latin America, which was primarily due to new distribution and increased promotional activity.

Household product sales in the first quarter of fiscal year 2008 were down \$1.2 million, or 7%, compared to the first quarter of fiscal year 2007 due to declines in the U.S. Sales in the U.S. decreased by \$1.5 million, or 9%, due to decreased sales of Spot Shot, Carpet Fresh, X-14 and 2000 Flushes. These declines were the result of several factors, including decreased distribution, declining categories, temporary manufacturing disruptions, which resulted in lost sales totaling \$1.0 million, and the effect of competitive factors within and among their product categories that are further described below. The declines in the U.S. were partially offset by sales growth of Spot Shot and 2000 Flushes in Canada.

Spot Shot sales declined 6% in the U.S. during the current fiscal year first quarter as compared to the prior fiscal year first quarter due to reduced sales to key customers and declines in the aerosol spot and stain category. The declines in the aerosol category are due to retailers reducing shelf space for aerosol spot and stain removers. This decrease was partially offset by increased distribution of the Spot Shot trigger product in the grocery trade channel versus the prior fiscal year first quarter. The Spot Shot trigger product competes in the non-aerosol spot and stain category, which is larger than the aerosol spot and stain category. The Company expects to further offset these declines through new packaging and promotional offerings throughout the current fiscal year. The Company has also committed both marketing and research and development resources to support and create meaningful innovation for the Spot Shot brand, including environmentally friendly products such as Spot Shot PetClean<sup>™</sup>, which is non-toxic and biodegradable.

Sales of Carpet Fresh in the U.S. declined 9% in the current fiscal year first quarter compared to the prior fiscal year first quarter due to reduced distribution and category declines in the mass retail and grocery trade channels. In recent years, retailers have reduced shelf space for traditional rug and room deodorizers for reallocation to other air care products. As a result, the rug and room deodorizer category as a whole has declined in the mass retail and grocery trade channels. The Company continues to refine its marketing, promotions and pricing strategies, and has committed research and development resources to create innovation for the Carpet Fresh brand.

U.S. sales of the X-14 hard surface cleaners decreased 27% in the current fiscal year first quarter versus the prior fiscal year first quarter due primarily to lost or decreased distribution, as well as temporary manufacturing disruptions that resulted in lost sales totaling \$0.5 million. In an effort to offset these losses and generate growth for the brand, the Company continues to commit additional marketing and research and development resources to support and to create innovation around the brand.

U.S. sales of 2000 Flushes/X-14 automatic toilet bowl cleaners were down 8% in the current fiscal year first quarter compared to the prior fiscal year first quarter due to reduced distribution with a key customer, competitive innovation and temporary manufacturing disruptions that resulted in lost sales totaling \$0.5 million. The reduced distribution with a key customer was the result of the decline in sales velocity of the in-bowl products, as consumer tastes have shifted toward the drop-in and manual cleaning categories. As a result, the Company has shifted its product line focus toward the drop-in category. Overall, sales in the entire toilet bowl cleaning category have declined in the grocery trade channel. To generate growth for the brand, the Company has also committed both marketing and research and development resources to support and to create next generation innovation around the automatic toilet bowl cleaner category.

The Company's U.S. household products compete in a highly competitive market and currently face diminishing product categories or shifts within these categories, as well as significant competitor activity. The Company is addressing these challenges through its focus on innovation and the continued renovation of its household brands. The Company's innovation and renovation efforts are focused in the areas of new product offerings, packaging enhancements and promotional strategies.

Sales of heavy-duty hand cleaners for the Americas decreased 3% in the current fiscal year first quarter compared to the prior fiscal year first quarter. Although sales of heavy-duty hand cleaners decreased slightly, distribution and sell through remain consistent and stable through the grocery trade and other classes of trade.

For the Americas, 80% of sales came from the U.S., and 20% came from Canada and Latin America in the first quarter of fiscal year 2008, compared to the distribution in the first quarter of fiscal year 2007, when 83% of sales came from the U.S., and 17% came from Canada and Latin America.

#### Europe

| Net Sales<br>(in thousands) | Three Months Ended November 30, |                  |                 |            |
|-----------------------------|---------------------------------|------------------|-----------------|------------|
|                             | 2007                            | 2006             | \$ Change       | % Change   |
| Lubricants                  | \$ 26,045                       | \$ 19,258        | \$ 6,787        | 35%        |
| Household products          | 2,351                           | 2,628            | (277)           | (11)%      |
| <b>Sub-total</b>            | <b>\$ 28,396</b>                | <b>\$ 21,886</b> | <b>\$ 6,510</b> | <b>30%</b> |

#### *% of consolidated*

**36%**      **30%**  
 For the quarter ended November 30, 2007, sales in Europe grew to \$28.4 million, up \$6.5 million, or 30%, over sales in the same prior fiscal year period. Changes in foreign currency exchange rates compared to the same prior fiscal year period contributed to the growth of sales. The current fiscal year first quarter results translated at last fiscal year's first quarter exchange rates would have produced sales of \$26.4 million in this region. Thus, the impact of the change in foreign currency exchange rates period over period positively affected first quarter fiscal year 2008 sales by approximately \$2.0 million, or 8%.

The countries where the Company sells through a direct sales force include the U.K., Spain, Portugal, Italy, France, Germany, the Netherlands, Denmark and Austria. Sales from these countries increased 24% in the current fiscal year first quarter versus last fiscal year's first quarter. Sales from these countries also accounted for 63% of the region's sales in the current fiscal year first quarter, down from 65% in the prior fiscal year first quarter. Percentage increases in sales in U.S. dollars across the various parts of the region over the prior fiscal year first quarter are as follows: the U.K., 0%; France, 56%; the German sales region, 42%; Spain/Portugal, 27%; and Italy, 19%. In the long term, the number of countries where the Company sells through a direct sales force is expected to increase, and these direct sales markets are expected to continue to be important contributors to the region's growth.

The U.K. market benefited from the favorable impact of changes in foreign currency exchange rates compared to the

same prior fiscal year period. In local currency, sales of the 3-IN-ONE and 1001 brands declined versus the prior fiscal year first quarter as a result of reduced account specific promotional activity with key customers, along with competitor activity. These declines were partially offset by growth of the WD-40 Smart Straw. The sales growth in France was the result of the continued growth of the WD-40 brand, including the WD-40 Smart Straw, as well as increased distribution of the 3-IN-ONE Professional line of products. The sales growth in the German sales region, which includes Germany, the Netherlands, Denmark and Austria, was the result of the continued growth and distribution of the WD-40 Smart Straw and the further development of direct sales into the Netherlands. Sales in Spain/Portugal were up as a result of the continued growth and penetration of WD-40 and 3-IN-ONE. The sales growth in Italy was also the result of increased awareness and penetration of the WD-40 brand and the continued growth of the WD-40 Smart Straw.

In the countries in which the Company sells through local distributors, sales increased 40% in the first quarter of fiscal year 2008 versus the first quarter of fiscal year 2007. The sales growth in the distributor markets was the result of the continued growth in Eastern and Northern Europe and the Middle East. The distributor market accounted for approximately 37% of the total Europe segment sales in the current fiscal year first quarter, up from 35% in the prior fiscal year first quarter. These markets continue to experience growth in distribution and usage resulting from increased market penetration and brand awareness.

#### Asia-Pacific

| Net Sales<br>(in thousands) | Three Months Ended November 30, |           |           |          |
|-----------------------------|---------------------------------|-----------|-----------|----------|
|                             | 2007                            | 2006      | \$ Change | % Change |
| Lubricants                  | \$ 6,008                        | \$ 4,055  | \$ 1,953  | 48%      |
| Household products          | 861                             | 583       | 278       | 48%      |
| Hand cleaners               | 330                             | 288       | 42        | 15%      |
| Sub-total                   | \$ 7,199                        | \$ 4,926  | \$ 2,273  | 46%      |
| <b>% of consolidated</b>    | <b>9%</b>                       | <b>7%</b> |           |          |

In the Asia-Pacific region, which includes Australia and Asia, total sales in the first quarter of fiscal year 2008 were \$7.2 million, up \$2.3 million, or 46%, compared to the first quarter of fiscal year 2007. Changes in foreign currency exchange rates compared to the same prior fiscal year period contributed to the growth of sales. The current fiscal year first quarter results translated at last fiscal year's first quarter exchange rates would have produced sales of \$6.8 million in this region. Thus, the impact of the change in foreign currency exchange rates period over period positively affected first quarter fiscal year 2008 sales by approximately \$0.4 million, or 6%. Asia-Pacific sales benefited from increased lubricant sales in both Asia and Australia, as well as increased No Vac sales in Australia.

Sales in Australia were up 44% in the current fiscal year first quarter as compared to the prior fiscal year first quarter primarily due to sales growth of WD-40 and No Vac. Sales of WD-40 were up as a result of the continuing broad distribution of the brand across all trade channels, while also benefiting from account specific promotional activity with key customers. No Vac also contributed to the sales growth in Australia as the brand continues to gain market share in Australia's growing aerosol rug and room deodorizer category.

Sales in Asia were up 47% in the current fiscal year first quarter as compared to the prior fiscal year first quarter primarily due to increased WD-40 sales to customers across the entire region, including in China, Indonesia, Korea and Malaysia. The increase in sales was the result of both increased promotional activity as well as the continued growth in awareness and penetration of the brand. Sales in China also benefited from the continued development of direct sales activity. Historically, the Company has sold to Asia through third-party marketing distributors. However, to accelerate the growth in this region, the Company began direct operations in China in fiscal year 2007. Sales across other parts of the Asian region were also up, including in the Philippines and Singapore. This region represents long-term growth potential for the Company.

#### **LIQUIDITY AND CAPITAL RESOURCES**

For the three months ended November 30, 2007, cash and cash equivalents decreased by \$10.7 million, from \$61.1 million at the end of fiscal year 2007 to \$50.4 million at November 30, 2007. Operating cash flow of \$1.9 million was more than offset by cash used in investing activities of \$1.0 million and cash used in financing activities of \$12.0 million.

Net cash provided by operating activities for the three months ended November 30, 2007 was \$1.9 million. This amount consisted of \$6.2 million from net income with an additional \$0.7 million of adjustments for non-cash items, including depreciation and amortization, gains on sales of equipment, deferred income tax expense, excess tax benefits from exercises of stock options, distributions received and equity earnings from VML and stock-based compensation, partially offset by \$5.0 million related to changes in the working capital as described below and changes in other long-term liabilities.

Net cash used in investing activities for the first three months of fiscal year 2008 was \$1.0 million. The Company purchased and sold \$51.3 million in short-term investments, which consisted of investment grade auction rate securities with an active resale market to ensure liquidity and the ability to be readily converted into cash. Capital expenditures of \$1.0 million were primarily in the areas of machinery and equipment related to new product development, computer hardware and software and vehicle replacements. For fiscal year 2008, the Company expects to spend approximately \$6.9 million for new capital assets, largely driven by new product development, computer equipment, software and vehicles.

For the first three months of fiscal year 2008, net cash used in financing activities included a \$10.7 million principal payment on debt in October 2007 and \$4.2 million of dividend payments, partially offset by \$2.8 million in proceeds from the exercise of common stock options and \$0.1 million of excess tax benefits from exercises of stock options. The \$10.7 million payment on debt was the third principal payment on the Company's original \$75 million, 7.28% fixed-rate term loan. Subsequent payments in similar amounts will be due in October in each of the following four years.

Current assets decreased by \$6.1 million to \$124.5 million at November 30, 2007, down from \$130.6 million at August 31, 2007. Inventory increased to \$15.7 million, up by \$2.5 million from \$13.2 million at August 31, 2007. The increase in inventory was the result of timing in the U.K. and the acquisition of inventory from VML, a contract manufacturer and warehouse distributor for the Company. During the first quarter of fiscal year 2008, the Company acquired an additional \$0.8 million of certain finished goods manufactured by VML, which had previously been owned and warehoused by VML under the Company's historical contract manufacturer model. As the Company transitioned to direct management of these finished goods, it acquired inventory from VML to supply its distribution centers. The Company will continue to acquire the inventory manufactured by VML to supply its distribution centers. Other current assets increased by \$1.8 million to \$5.3 million at November 30, 2007, up from \$3.5 million at August 31, 2007 due to the timing of prepaid expenses.

Current liabilities were \$50.8 million at November 30, 2007, down from \$53.9 million at August 31, 2007. Accounts payable and accrued liabilities decreased by \$1.3 million due to timing of payments. Accrued payroll and related expenses were down \$2.6 million primarily due to decreased bonus accrual as the Company paid its fiscal year 2007 bonuses during the first quarter of fiscal year 2008. Income taxes payable increased \$0.8 million due to the timing of payments for federal income taxes.

At November 30, 2007, working capital decreased to \$73.7 million, down \$3.0 million from \$76.7 million at the end of fiscal year 2007. The current ratio was 2.5 at November 30, 2007, up slightly from 2.4 at August 31, 2007.

On March 27, 2007, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect for up to twelve months, the Company is authorized to acquire up to \$35.0 million of the Company's outstanding shares. For the three months ended November 30, 2007, the Company did not acquire any shares under the plan. As of November 30, 2007, the Company has acquired 500,000 shares at a total cost of \$17.3 million under the plan.

The Company has relationships with various suppliers (contract manufacturers) who manufacture the Company's products. Although the Company does not have any definitive minimum purchase obligations included in the contract terms with the contract manufacturers, supply needs are communicated and the Company is committed to purchase the products produced based on orders and short-term projections provided to the contract manufacturers, ranging from two to five months. The Company is also obligated to purchase obsolete or slow-moving inventory. The Company has purchased inventory under these commitments, the amounts of which have not been material.

In addition to the commitments to purchase products from contract manufacturers described above, the Company has also entered into commitments with other manufacturers to purchase finished goods and components of \$2.9 million in fiscal year 2008.

Management believes the Company has access to sufficient capital through the combination of available cash balances and internally generated funds. Management considers various factors when reviewing liquidity needs and plans for available cash on hand including: future debt, principal and interest payments, early debt repayment penalties, future capital expenditure requirements, future dividend payments (which are determined on a quarterly basis by the Company's Board of Directors), alternative investment opportunities, loan covenants and any other relevant considerations currently facing the business.

On December 11, 2007, the Company's Board of Directors declared a cash dividend of \$0.25 per share payable on January 31, 2008 to shareholders of record on January 8, 2008. The Company's ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

## **INCOME TAXES**

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position must be recognized in the financial statements at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a fifty percent likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 effective September 1, 2007. The cumulative effect of adopting FIN 48 resulted in a decrease of \$0.6 million to the September 1, 2007 balance of retained earnings. At November 30, 2007, the Company's gross liability for income taxes related to unrecognized tax benefits totaled \$2.5 million and is included in other long-term liabilities in the Company's consolidated balance sheet. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's tax rate was \$1.8 million at November 30, 2007.

As a result of FIN 48, the Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest of \$0.3 million is included in the \$2.5 million of gross unrecognized tax benefits referenced above.

The Company is subject to taxation in the U.S., various states and foreign jurisdictions. The Company currently has no years under examination by the U.S. Internal Revenue Service and is not subject to examination for years prior to fiscal year 2004. The Company is currently under audit in various state and local jurisdictions for fiscal years 1996 through 1999 and fiscal years 2003 through 2005. The Company is also currently under audit in a foreign jurisdiction for fiscal years 2005 and 2006. The Company estimates that up to \$0.5 million of unrecognized tax benefits relate to income tax positions that may be affected by the resolution of tax examinations or expiring statutes of limitation.

During the first quarter of fiscal year 2008, the Company recorded liabilities related to unrecognized tax benefits of \$0.1 million in the current fiscal year.

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our operating results and financial condition is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.



Critical accounting policies are those that involve subjective or complex judgments, often as a result of the need to make estimates. The following areas all require the use of judgments and estimates: allowance for doubtful accounts, revenue recognition, accounting for sales incentives, accounting for income taxes, valuation of long-lived intangible assets and goodwill and inventory valuation. Estimates in each of these areas are based on historical experience and various judgments and assumptions that we believe are appropriate. Actual results may differ from these estimates.

#### ***Accounting for 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.

U.S. income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested in accordance with Accounting Principles Board Opinion No. 23, Accounting for Income Taxes, Special Areas. The Company determines whether its foreign subsidiaries will invest their undistributed earnings indefinitely based on the capital needs of the foreign subsidiaries. The Company periodically reassesses this determination. Changes to the Company's determination may be warranted based on the Company's experience as well as plans regarding future international operations and expected remittances.

Significant judgment is required in determining our consolidated income tax provision and evaluating our U.S. and foreign tax positions. In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes—An interpretation of FASB Statement No. 109, which became effective for the Company at the beginning of its fiscal year ending August 31, 2008. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. As a result of FIN 48, the Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Our critical accounting policies are discussed in more detail in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended August 31, 2007.

#### **RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. Management is currently evaluating the impact that the implementation of SFAS No. 159 may have on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management is currently evaluating SFAS No. 157 to determine the impact, if any, on the Company's consolidated financial statements.

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## TRANSACTIONS WITH RELATED PARTIES

VML Company L.L.C. (VML), a Delaware Limited Liability Company, was formed in April 2001, at which time the Company acquired a 30% membership interest. Since formation, VML has served as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company. Although VML has begun to expand its business to other customers, the Company continues to be its largest customer. VML makes profit distributions to the Company and the 70% owner on a discretionary basis in proportion to each party's respective interest.

The Company has a put option to sell its interest in VML to the 70% owner, and the 70% owner has a call option to purchase the Company's interest. The sale price in each case is established pursuant to formulas based on VML's operating results.

Under Financial Interpretation No. 46(R), Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51, VML qualifies as a variable interest entity, and it has been determined that the Company is not the primary beneficiary. The Company's investment in VML is accounted for using the equity method of accounting, and its equity in VML earnings or losses is recorded as a component of cost of products sold, as VML acts primarily as a contract manufacturer to the Company. The Company recorded equity earnings related to its investment in VML of \$41,000 and \$6,000 for the three months ended November 30, 2007 and 2006, respectively.

The Company's maximum exposure to loss as a result of its involvement with VML was \$1.1 million as of November 30, 2007. This amount represents the balance of the Company's equity investment in VML, which is presented as investment in related party on the Company's consolidated balance sheets. The Company's investment in VML as of August 31, 2007 was \$1.0 million.

Cost of products sold which were purchased from VML, net of rebates and equity earnings, was approximately \$6.7 million and \$5.2 million during the three months ended November 30, 2007 and 2006, respectively. The Company had product payables to VML of \$2.8 million and \$1.5 million at November 30, 2007 and August 31, 2007, respectively. Additionally, the Company receives rental income from VML, which is recorded as a component of other income (expense), net. Rental income from VML was \$48,000 during each of the three months ended November 30, 2007 and 2006.

During the first quarter of fiscal year 2008, the Company acquired an additional \$0.8 million of certain finished goods manufactured by VML, which had previously been owned and warehoused by VML under the Company's historical contract manufacturer model. As the Company transitioned to direct management of these finished goods, it acquired inventory from VML to supply its distribution centers. The Company will continue to acquire the inventory manufactured by VML to supply its distribution centers.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Periodically, the Company invests in highly liquid investment grade auction rate securities, which are classified as available-for-sale and reported at fair value with maturities that could range from 13 months to 30 years. The interest rates are reset through an auction bidding process at predetermined periods ranging from 7 to 35 days. Due to the frequent nature of the reset feature, the realized or unrealized gains or losses associated with these securities are not significant; therefore, the Company considers the reported amounts of these investments, which are stated at cost, to be reasonable approximations of fair values. Management does not believe changes in market interest rates will have a material impact on our financial position.

Please refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company's Annual Report on Form 10-K for the year ended August 31, 2007 for a discussion of the Company's exposure to market risks. The Company's exposure to market risks has not changed materially since August 31, 2007.

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**ITEM 4. Controls and Procedures**

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934 (Exchange Act). The term disclosure controls and procedures means controls and other procedures of a Company that are designed to ensure the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures. The Company's chief executive officer and chief financial officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of November 30, 2007, the end of the period covered by this report (the Evaluation Date), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in the Company's reports filed under the Exchange Act. Although management believes the Company's existing disclosure controls and procedures are adequate to enable the Company to comply with its disclosure obligations, management continues to review and update such controls and procedures. The Company has a disclosure committee, which consists of certain members of the Company's senior management.

There were no changes to the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that materially affected, or would be reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II Other Information**

**ITEM 1. Legal Proceedings**

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

On April 19, 2006, a legal action was filed against the Company in the United States District Court, Southern District of California (*Drimmer v. WD-40 Company*). After several of the plaintiff's factual claims were dismissed by way of motion, the plaintiff filed an amended complaint on September 20, 2006, seeking class action status and alleging that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. On August 24, 2007, the Company successfully defeated the plaintiff's attempt to have the case certified as a class action. The plaintiff has been granted permission to appeal the District Court's decision. If the plaintiff is successful in an appeal and class action certification is granted in this aforementioned legal action, it is reasonably possible that the outcome could have a material adverse effect on the operating results, financial position and cash flows of the Company. There is not sufficient information to estimate the Company's exposure at this time.

The Company has been named as a defendant in an increasing number of lawsuits brought by a growing group of attorneys on behalf of individual plaintiffs who assert that exposure to products that allegedly contain benzene is a cause of certain cancers. The Company is one of many defendants in these legal proceedings whose products are alleged to contain benzene. However, the Company specifies that its suppliers provide constituent ingredients free of benzene, and the Company believes its products have always been formulated without containing benzene. Except for self-insured retention amounts applicable to each separately filed lawsuit, the Company expects that the benzene lawsuits will be adequately covered by insurance and will not have a material impact on the Company's financial condition or results of operations. The Company is vigorously defending these lawsuits in an effort to demonstrate conclusively that its products do not contain benzene, and that they have not contained benzene in prior years. The Company is unable to assess the expected cost of defense of these lawsuits in future periods. If the number of benzene lawsuits filed against the Company continues to increase, it is reasonably possible that such costs of defense may materially affect the Company's results of operations and cash flows in future periods.

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During the quarter ended November 30, 2007, there were no material developments with respect to legal proceedings that were pending as of the prior fiscal year end and disclosed in the Company's Annual Report on Form 10-K for the year ended August 31, 2007.

#### **ITEM 1A. Risk Factors**

The Company is subject to a variety of risks, including component supply risk, reliance on supply chain, inventory risks, competition, volume growth, political and economic risks, international operations, business risks, new product development risks, risk that operating results and net earnings may not meet expectations, regulatory risks, resolution of tax disputes, acquisition risk, debt financing risk, protection of intellectual property, intellectual property infringement, volatility in the insurance market, product liability and other litigation risks, marketing distributor relationships, natural disasters, market expectations and internal control over financial reporting. These risk factors are discussed in more detail in Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended August 31, 2007.

There were no material changes during the most recent fiscal quarter in the risk factors described in the Company's Annual Report on Form 10-K.

#### **Forward Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward-looking statements. This report contains forward-looking statements, which reflect the Company's current views with respect to future events and financial performance.

These forward-looking statements are subject to certain risks and uncertainties. The words aim, believe, expect, anticipate, intend, estimate, and other expressions that indicate future events and trends identify forward-looking statements. Additional risks and uncertainties are described in the Company's Annual Report on Form 10-K for the year ended August 31, 2007, as updated from time to time in the Company's SEC filings.

Actual future results and trends may differ materially from historical results or those anticipated depending upon factors including, but not limited to, the near-term growth expectations for lubricants, household products and heavy-duty hand cleaners in the Americas, the impact of changes in product distribution, competition for shelf space, plans for product and promotional innovation, the impact of new product introductions on the growth of sales, the impact of customer mix and raw material, component and finished goods costs on gross margins, the impact of promotions on sales, the rate of sales growth in the Asia-Pacific region, direct European countries and Eastern Europe, the impact of changes in inventory management, the effect of future income tax provisions and audit outcomes on tax rates, the amount of future capital expenditures, foreign currency exchange rates and fluctuations in those rates, the effects of, and changes in, worldwide economic conditions, legal proceedings and the other risk factors identified in Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended August 31, 2007.

Readers also should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Further, the Company has a policy against confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3(a)               | The Certificate of Incorporation is incorporated by reference from the Registrant's Form 10-K filed October 25, 2007, Exhibit 3(a) thereto.   |
| 3(b)               | The Bylaws are incorporated by reference from the Registrant's Form 8-K filed October 20, 2005, Exhibit 3 thereto.<br>Material Contracts.<br>Executive Compensation Plans and Arrangements (Exhibits 10(a) and 10(b) are compensatory plans or arrangements required to be filed as exhibits pursuant to ITEM 6). |
| 10(a)              | WD-40 Directors' Compensation Policy and Election Plan  |
| 10(b)              | WD-40 Company 2007 Stock Incentive Plan, incorporated by reference from the Registrant's Proxy Statement filed on November 8, 2007 (Appendix A, thereto).   |
| 31(a)              | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31(b)              | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32(a)              | 18 U.S.C. Section 1350 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32(b)              | 18 U.S.C. Section 1350 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

SIGNATURES

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

WD-40 COMPANY

Registrant

Date: January 9, 2008

By: /s/ GARRY O. RIDGE  
Garry O. Ridge  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ MICHAEL J. IRWIN  
Michael J. Irwin  
Executive Vice President  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ JAY REMBOLT  
Jay Rembolt  
Vice President of Finance, Controller  
(Principal Accounting Officer)