

WD 40 CO  
Form 10-Q  
July 09, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended May 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-06936

**WD-40 COMPANY**

(Exact name of registrant as specified in its charter)

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|   |  |
|---|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)                      | <b>95-1797918</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>1061 Cudahy Place,</b><br><br><b>San Diego, California</b><br>(Address of principal executive offices) | <b>92110</b><br>(Zip code)                                   |
| <b>Registrant's telephone number, including area code: (619) 275-1400</b>                                 |  |

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

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

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

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input type="checkbox"/>    |

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

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of June 30, 2009 was 16,503,541.

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**WD-40 COMPANY**  
**QUARTERLY REPORT ON FORM 10-Q**

**For the Quarter Ended May 31, 2009**

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|  | May 31, 2009      | August 31, 2008   |
|--|-------------------|-------------------|
| <b>Assets</b>  |                   |                   |
| Current assets:  |                   |                   |
| Cash and cash equivalents  | \$ 36,225         | \$ 41,983         |
| Trade accounts receivable, less allowance for doubtful accounts of \$849 and \$486 at May 31, 2009 and August 31, 2008, respectively | 44,003            | 49,271            |
| Product held at contract packagers   | 2,095             | 2,453             |
| Inventories  | 17,299            | 18,280            |
| Current deferred tax assets, net   | 4,026             | 4,045             |
| Other current assets   | 3,571             | 3,453             |
| <b>Total current assets</b>  | <b>107,219</b>    | <b>119,485</b>    |
| Property, plant and equipment, net   | 11,358            | 11,309            |
| Goodwill   | 95,338            | 95,909            |
| Other intangible assets, net   | 36,180            | 39,992            |
| Other assets   | 3,873             | 3,543             |
| Investment in related party  |                   | 435               |
| <b>Total assets</b>  | <b>\$ 253,968</b> | <b>\$ 270,673</b> |
| <b>Liabilities and Shareholders Equity</b>   |                   |                   |
| Current liabilities:   |                   |                   |
| Accounts payable   | \$ 10,948         | \$ 22,985         |
| Accounts payable to related party  | 227               | 547               |
| Accrued liabilities  | 14,897            | 13,143            |
| Current portion of long-term debt  | 10,714            | 10,714            |
| Accrued payroll and related expenses   | 4,812             | 6,084             |
| Income taxes payable   | 2,409             | 1,090             |
| <b>Total current liabilities</b>   | <b>44,007</b>     | <b>54,563</b>     |
| Long-term debt   | 21,429            | 32,143            |
| Long-term deferred tax liabilities, net  | 18,369            | 16,876            |
| Deferred employee benefits and other long-term liabilities   | 3,077             | 3,099             |
| <b>Total liabilities</b>   | <b>86,882</b>     | <b>106,681</b>    |
| Shareholders equity:   |                   |                   |
|  | 18                | 18                |

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Common stock - authorized 36,000,000 shares, \$0.001 par value; 18,064,544 and 18,041,715 shares issued at May 31, 2009 and August 31, 2008, respectively; and 16,501,046 and 16,478,217 shares outstanding at May 31, 2009 and August 31, 2008, respectively

|   |                |                |
|---|----------------|----------------|
| Additional paid-in capital                                | 85,479         | 82,647         |
| Retained earnings   | 134,883        | 128,627        |
| Accumulated other comprehensive (loss) income             | (3,228)        | 2,766          |
| Common stock held in treasury, at cost - 1,563,498 shares | (50,066)       | (50,066)       |
| <b>Total shareholders' equity</b>                         | <b>167,086</b> | <b>163,992</b> |
| <br>  |                |                |
| Total liabilities and shareholders' equity                | \$ 253,968     | \$ 270,673     |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|   | <b>Three Months Ended May 31,</b> |             | <b>Nine Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|----------------------------------|-------------|
|   | <b>2009</b>                       | <b>2008</b> | <b>2009</b>                      | <b>2008</b> |
| Net sales   | \$ 68,816                         | \$ 82,104   | \$ 214,250                       | \$ 240,202  |
| Cost of products sold (including cost of products acquired from related party of \$3,830 and \$5,927 for the three months ended May 31, 2009 and 2008, respectively; and \$11,550 and \$17,104 for the nine months ended May 31, 2009 and 2008, respectively) | 33,821                            | 43,921      | 109,873                          | 126,409     |
| Gross profit  | 34,995                            | 38,183      | 104,377                          | 113,793     |
| Operating expenses:   |                                   |             |                                  |             |
| Selling, general and administrative   | 18,412                            | 21,446      | 57,365                           | 63,014      |
| Advertising and sales promotion   | 5,321                             | 4,339       | 15,338                           | 15,222      |
| Amortization of definite-lived intangible asset   | 107                               | 147         | 346                              | 449         |
| Impairment of indefinite-lived intangible asset   |                                   |             | 2,760                            |             |
| Total operating expenses  | 23,840                            | 25,932      | 75,809                           | 78,685      |
| Income from operations  | 11,155                            | 12,251      | 28,568                           | 35,108      |
| Other (expense) income:   |                                   |             |                                  |             |
| Interest expense, net of interest income of \$29 and \$307 for the three months ended May 31, 2009 and 2008, respectively; and \$377 and \$1,263 for the nine months ended May 31, 2009 and 2008, respectively  | (568)                             | (433)       | (1,518)                          | (1,229)     |
| Other (expense) income, net   | (157)                             | 212         | 544                              | 753         |
| Income before income taxes  | 10,430                            | 12,030      | 27,594                           | 34,632      |
| Provision for income taxes  | 3,533                             | 3,957       | 8,929                            | 11,663      |
| Net income  | \$ 6,897                          | \$ 8,073    | \$ 18,665                        | \$ 22,969   |
| Earnings per common share:  |                                   |             |                                  |             |
| Basic   | \$ 0.42                           | \$ 0.49     | \$ 1.13                          | \$ 1.38     |
| Diluted   | \$ 0.41                           | \$ 0.49     | \$ 1.12                          | \$ 1.36     |
| Shares used in per share calculations:  |                                   |             |                                  |             |
| Basic   | 16,501,046                        | 16,430,730  | 16,499,159                       | 16,700,457  |
| Diluted   | 16,646,416                        | 16,580,339  | 16,656,610                       | 16,880,556  |

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|                                     |    |      |    |      |    |      |    |      |
|-------------------------------------|----|------|----|------|----|------|----|------|
| Dividends declared per common share | \$ | 0.25 | \$ | 0.25 | \$ | 0.75 | \$ | 0.75 |
|-------------------------------------|----|------|----|------|----|------|----|------|

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | <b>Nine Months Ended May 31,</b> |                 |
|--|----------------------------------|-----------------|
|  | <b>2009</b>                      | <b>2008</b>     |
| <b>Operating activities:</b>   |                                  |                 |
| Net income   | \$ 18,665                        | \$ 22,969       |
| Adjustments to reconcile net income to net cash provided by operating activities:                              |                                  |                 |
| Depreciation and amortization  | 2,733                            | 2,799           |
| Impairment of indefinite-lived intangible asset  | 2,760                            |                 |
| Net gains on sales and disposals of property and equipment   | (48)                             | (6)             |
| Deferred income tax expense  | 1,616                            | 417             |
| Excess tax benefits from exercises of stock options and conversions of restricted stock units to common shares | (14)                             | (158)           |
| Equity losses from related party   | 435                              | 248             |
| Stock-based compensation   | 2,174                            | 1,887           |
| Provision for bad debts  | 625                              | 182             |
| Changes in assets and liabilities:   |                                  |                 |
| Trade accounts receivable  | 1,792                            | (5,129)         |
| Product held at contract packagers   | 358                              | (363)           |
| Inventories  | 548                              | (4,036)         |
| Other assets   | (979)                            | 360             |
| Accounts payable and accrued expenses and liabilities  | (9,612)                          | (4,560)         |
| Accounts payable to related party  | (320)                            | (1,141)         |
| Income taxes payable   | 1,525                            | 3,219           |
| Deferred employee benefits and other long-term liabilities   | (10)                             | 1,724           |
| <b>Net cash provided by operating activities</b>   | <b>22,248</b>                    | <b>18,412</b>   |
| <b>Investing activities:</b>   |                                  |                 |
| Capital expenditures   | (2,666)                          | (4,351)         |
| Proceeds from sales of property and equipment  | 208                              | 142             |
| Purchases of marketable securities   |                                  | (76,175)        |
| Proceeds from sales of marketable securities   |                                  | 76,175          |
| <b>Net cash used in investing activities</b>   | <b>(2,458)</b>                   | <b>(4,209)</b>  |
| <b>Financing activities:</b>   |                                  |                 |
| Repayments of long-term debt   | (10,714)                         | (10,714)        |
| Proceeds from issuance of common stock   | 640                              | 3,278           |
| Excess tax benefits from exercises of stock options and conversions of restricted stock units to common shares | 14                               | 158             |
| Dividends paid   | (12,409)                         | (12,572)        |
| Treasury stock purchases   |                                  | (17,720)        |
| <b>Net cash used in financing activities</b>   | <b>(22,469)</b>                  | <b>(37,570)</b> |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>  | <b>(3,079)</b>                   | <b>(164)</b>    |



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|  |           |           |
|--|-----------|-----------|
| Net decrease in cash and cash equivalents        | (5,758)   | (23,531)  |
| Cash and cash equivalents at beginning of period | 41,983    | 61,078    |
| Cash and cash equivalents at end of period       | \$ 36,225 | \$ 37,547 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | <b>Three Months Ended May 31,</b> |             | <b>Nine Months Ended May 31,</b> |             |
|--|-----------------------------------|-------------|----------------------------------|-------------|
|  | <b>2009</b>                       | <b>2008</b> | <b>2009</b>                      | <b>2008</b> |
| Net income   | \$ 6,897                          | \$ 8,073    | \$ 18,665                        | \$ 22,969   |
| Other comprehensive income (loss):   |                                   |             |                                  |             |
| Equity adjustment from foreign currency translation, net of tax (provision) benefit of (\$98) and \$13 for the three months ended May 31, 2009 and 2008, respectively; and \$42 and (\$52) for the nine months ended May 31, 2009 and 2008, respectively | 5,247                             | (151)       | (5,994)                          | (482)       |
| Other, net of tax provision of (\$53) for the three and nine months ended May 31, 2008   |                                   | 89          |                                  | 89          |
| Total comprehensive income   | \$ 12,144                         | \$ 8,011    | \$ 12,671                        | \$ 22,576   |

See accompanying notes to unaudited condensed consolidated financial statements.

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**WD-40 COMPANY**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Company**

WD-40 Company ( the Company ), based in San Diego, California, is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of doer and on-the-job users by leveraging and building the brand fortress of the Company. The Company markets two multi-purpose maintenance product brands, WD-40® and 3-IN-ONE® Oil, and eight homecare and cleaning product brands, 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, 1001® carpet and household cleaners and rug and room deodorizers and Lava® and Solvol® heavy-duty hand cleaners.

The Company's brands are sold in various locations around the world. Multi-purpose maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the U.K., Australia and the Pacific Rim.

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

***Basis of Presentation***

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The August 31, 2008 year-end condensed consolidated 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 of America. 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

In the opinion of management, the unaudited financial information for the interim periods shown reflects all adjustments necessary for a fair presentation thereof. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2008, filed with the SEC on October 23, 2008.

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

***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 6 percent of the Company's consolidated net sales during the three months ended May 31, 2009 and 2008, respectively, and 7 percent of the Company's consolidated net sales during each of the nine-month periods ended May 31, 2009 and 2008. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 3 percent of the Company's consolidated net sales for each of the three-month periods ended May 31, 2009 and 2008 and 4 percent and 3 percent for the nine months ended May 31, 2009 and 2008, respectively.

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**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Foreign Currency Forward Contracts***

The Company is exposed to a variety of risks, including foreign currency exchange rate fluctuations. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency values.

The Company's U.K. subsidiary, whose functional currency is Pound Sterling, utilizes foreign currency forward contracts in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*, to limit its exposure on converting cash and accounts receivable balances denominated in non-functional currencies. The principal currency affected is the Euro. The Company regularly monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. While the Company engages in foreign currency hedging activity to reduce its risk, for accounting purposes, none of its foreign currency forward contracts are designated as hedges.

Foreign currency forward contracts are accounted for on a mark-to-market basis, with net realized and unrealized gains and losses recognized currently in other income (expense) in the condensed consolidated statements of operations. Cash flows from settlements of foreign currency forward contracts are included in operating activities in the condensed consolidated statements of cash flows. Foreign currency forward contracts in an asset position are included in other current assets, while foreign currency forward contracts in a liability position are included in accrued liabilities in the Company's condensed consolidated balance sheets.

The Company continually monitors its positions with, and the credit quality of, the major international financial institutions which are counterparties to its foreign currency forward contracts, and has not experienced nonperformance by any of these counterparties. As a matter of policy, the Company does not purchase contracts that exceed the amount of its cash and accounts receivable balances denominated in non-functional currencies. At May 31, 2009, the Company had approximately \$6.1 million of foreign currency forward contracts outstanding with a net unrealized gain of \$0.1 million. These foreign currency forward contracts mature from June 2009 through September 2009. The Company realized net losses on foreign currency forward contracts of \$0.2 million for each of the three-month periods ended May 31, 2009 and 2008. For the nine-month periods ended May 31, 2009 and 2008, the Company realized net losses on foreign currency forward contracts of \$0.7 million and \$0.9 million, 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. In addition to valuation allowances, the Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. In accordance with FIN 48, the Company recognizes accrued interest and penalties related to uncertain tax positions as a component of income tax expense.

U.S. federal income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. federal income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested 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.

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED 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. Potentially dilutive securities are comprised of stock options and restricted stock units granted under the Company's prior stock option plan and current stock incentive plan.

***Recently Issued Accounting Pronouncements***

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data). FSP EITF 03-6-1 is effective for the Company's fiscal year beginning on September 1, 2009, and interim periods within that year. The Company is currently evaluating the impact, if any, the adoption of FSP EITF 03-6-1 will have on its earnings per common share.

Effective September 1, 2008, the Company adopted the required portions of SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which had no impact on the Company's consolidated financial statements. SFAS No. 157 currently applies to all financial assets and liabilities and those nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The effective date of the provisions of SFAS No. 157 for nonfinancial assets and liabilities, except for items recognized at fair value on a recurring basis, was delayed by FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, and is effective for the Company's fiscal year beginning on September 1, 2009. The Company is currently evaluating the impact of the delayed portions of SFAS No. 157 on its consolidated financial position and results of operations. The adoption of the nondelayed portions of SFAS No. 157 is more fully described in Note 4.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS No. 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 is effective for the Company's fiscal year beginning on September 1, 2009. The adoption of SFAS No. 165 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ), which amends the consolidation guidance applicable to variable interest entities. Upon adoption of SFAS No. 167, the Company will have reconsidered its previous FIN 46(R) conclusions regarding its investment in VML Company, L.L.C. ( VML ). SFAS No. 167 is effective for the Company's fiscal year beginning on September 1, 2010. Early adoption is prohibited. The Company is currently evaluating the impact, if any, SFAS No. 167 will have on its consolidated financial position and results of operations.

**Note 3. Goodwill and Other Intangible Assets**

Goodwill and other intangible assets 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 when there is evidence that events or changes in circumstances indicate that an impairment condition may exist.

In addition to the annual impairment test, goodwill and indefinite-lived intangible assets 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. Indefinite-lived intangible assets are evaluated each reporting period to

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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.

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

During the second quarter of fiscal year 2009, the Company performed its annual impairment test of goodwill and indefinite-lived intangible assets. Based on the results of this test, the Company determined that its goodwill was not impaired since the fair value of each reporting unit exceeded its carrying value by more than 10% as of February 28, 2009.

The Company determined that each of the indefinite-lived intangible assets related to its homecare and cleaning products was not impaired as of February 28, 2009, with the exception of the indefinite-lived intangible asset related to its Carpet Fresh brand, which was impaired by \$2.8 million. This impairment was due to an increase in cost of goods and a decline in forecasted sales levels of the Carpet Fresh brand, both of which occurred during the quarter ended February 28, 2009. The decline in forecasted sales levels resulted from the Company's strategic decision to redirect its research and development efforts towards its multi-purpose maintenance products, the loss of distribution with a significant U.S. mass retail customer and assumed lower future foreign currency exchange rates in the U.K. and Australia. While some of these factors also impacted the indefinite-lived intangible assets related to the Company's other homecare and cleaning products, they did not result in impairment to any of such other indefinite-lived intangible assets for the second quarter of fiscal year 2009.

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

The Company performed a sensitivity analysis on its significant assumptions and estimates and determined that a negative change in its significant assumptions and estimates would have resulted in the following potential impairment charges to the indefinite-lived intangible assets related to its Carpet Fresh, X-14, 2000 Flushes and Spot Shot brands (the approximate impact of the change in each significant assumption and estimate assumes all other assumptions and estimates remain constant; in millions, except percentages):

|  | Potential Impairment Charges |        |              |
|--|------------------------------|--------|--------------|
|  | Carpet Fresh                 | X-14   | 2000 Flushes |
| 50 basis point decrease in royalty rate  | \$ 0.8                       | \$ 0.5 | \$ 0.9       |
| 10% decrease in forecasted sales revenue | \$ 0.4                       | \$ 0.1 | \$ 0.7       |

| Spot Shot                                | Potential          |
|--|--------------------|
|  | Impairment Charges |
| 75 basis point decrease in royalty rate  | \$ 0.5             |
| 20% decrease in forecasted sales revenue | \$ 0.9             |

Larger decreases in the significant assumptions and estimates set forth above could result in further impairment of the indefinite-lived intangible assets related to the Carpet Fresh, X-14, 2000 Flushes and Spot Shot brands. In addition, negative changes in other assumptions and estimates, such as advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention, development of new and/or alternative distribution channels, tax rates and terminal growth values, could result in further impairment.



**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

***Acquisition-related Goodwill***

Changes in the carrying amounts of acquisition-related goodwill by segment for the nine months ended May 31, 2009 are summarized below (in thousands):

|                               | Americas  | Europe   | Asia-Pacific | Total     |
|-------------------------------|-----------|----------|--------------|-----------|
| Balance as of August 31, 2008 | \$ 85,637 | \$ 9,059 | \$ 1,213     | \$ 95,909 |
| Translation adjustments       | (79)      | (489)    | (3)          | (571)     |
| Balance as of May 31, 2009    | \$ 85,558 | \$ 8,570 | \$ 1,210     | \$ 95,338 |

***Indefinite-lived Intangible Assets***

Intangible assets, excluding acquisition-related 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. Changes in the carrying amounts of indefinite-lived intangible assets by segment for the nine months ended May 31, 2009 are summarized below (in thousands):

|                               | Americas  | Europe   | Asia-Pacific | Total     |
|-------------------------------|-----------|----------|--------------|-----------|
| Balance as of August 31, 2008 | \$ 34,360 | \$ 3,693 | \$           | \$ 38,053 |
| Impairment charge             | (2,760)   |          |              | (2,760)   |
| Translation adjustments       |           | (457)    |              | (457)     |
| Balance as of May 31, 2009    | \$ 31,600 | \$ 3,236 | \$           | \$ 34,836 |

***Definite-lived Intangible Asset***

The Company's definite-lived intangible asset consists of certain non-contractual customer relationships from the acquisition of the 1001 line of products during fiscal year 2004. 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 accumulated amortization as of May 31, 2009 and August 31, 2008 (in thousands):

|                          | May 31,<br>2009 | August 31,<br>2008 |
|--------------------------|-----------------|--------------------|
| Gross carrying amount    | \$ 3,794        | \$ 4,329           |
| Accumulated amortization | (2,450)         | (2,390)            |
| Net carrying amount      | \$ 1,344        | \$ 1,939           |



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Changes in the carrying amount of the definite-lived intangible asset for the nine months ended May 31, 2009 are summarized below (in thousands):

|                               | <b>Americas</b> | <b>Europe</b> | <b>Asia-Pacific</b> | <b>Total</b> |
|-------------------------------|-----------------|---------------|---------------------|--------------|
| Balance as of August 31, 2008 | \$              | \$ 1,939      | \$                  | \$ 1,939     |
| Amortization expense          |                 | (346)         |                     | (346)        |
| Translation adjustments       |                 | (249)         |                     | (249)        |
| Balance as of May 31, 2009    | \$              | \$ 1,344      | \$                  | \$ 1,344     |

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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 expense for the non-contractual customer relationships intangible asset in future fiscal years is as follows (in thousands):

|                               |                 |
|-------------------------------|-----------------|
| Remainder of fiscal year 2009 | \$ 119          |
| Fiscal year 2010              | 474             |
| Fiscal year 2011              | 474             |
| Fiscal year 2012              | 277             |
|                               | <b>\$ 1,344</b> |

**Note 4. Fair Value Measurements**

Effective September 1, 2008, the Company adopted the required portions of SFAS No. 157 for financial assets and liabilities. SFAS No. 157 establishes a hierarchy that prioritizes fair value measurements into the following three categories based on the types of inputs used in measuring fair value:

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

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

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

The following table sets forth the Company's financial assets that were measured at fair value as of May 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

|  | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---|---|--|
| Assets:  |   |   |  |
| Money market funds   | \$  | \$ 3,433  | \$   |
| Money market funds are classified as cash and cash equivalents in the Company's condensed consolidated balance sheet as of May 31, 2009. |   |   |  |

**Note 5. Supplementary Balance Sheet Information (in thousands):**

|                              | May 31,<br>2009 | August 31,<br>2008 |
|------------------------------|-----------------|--------------------|
| Inventories:                 |                 |                    |
| Raw materials and components | \$ 2,977        | \$ 3,766           |
| Work-in-process              | 704             | 1,174              |
| Finished goods               | 13,618          | 13,340             |

|   |           |           |
|---|-----------|-----------|
|   | \$ 17,299 | \$ 18,280 |
| Property, plant and equipment, net:             |           |           |
| Machinery, equipment and vehicles               | \$ 12,740 | \$ 11,507 |
| Buildings and improvements                      | 4,417     | 4,540     |
| Software  | 3,876     | 3,769     |
| Computer and office equipment                   | 2,914     | 3,132     |
| Furniture and fixtures                          | 1,067     | 899       |
| Land  | 547       | 574       |
|   | 25,561    | 24,421    |
| Less: accumulated depreciation and amortization | (14,203)  | (13,112)  |
|   | \$ 11,358 | \$ 11,309 |

**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

|  | May 31,<br>2009 | August 31,<br>2008 |
|--|-----------------|--------------------|
| <b>Accrued liabilities:</b>  |                 |                    |
| Accrued advertising and sales promotion expenses                   | \$ 8,879        | \$ 8,232           |
| Other  | 6,018           | 4,911              |
|  | \$ 14,897       | \$ 13,143          |
| <b>Accrued payroll and related expenses:</b>                       |                 |                    |
| Accrued payroll  | \$ 1,447        | \$ 1,519           |
| Accrued bonuses  | 1,348           | 1,988              |
| Accrued profit sharing   | 994             | 1,408              |
| Accrued payroll taxes  | 798             | 930                |
| Other  | 225             | 239                |
|  | \$ 4,812        | \$ 6,084           |
| <b>Deferred employee benefits and other long-term liabilities:</b> |                 |                    |
| Supplemental employee retirement plan benefits liability           | \$ 786          | \$ 878             |
| Other income taxes payable   | 2,152           | 2,077              |
| Other  | 139             | 144                |
|  | \$ 3,077        | \$ 3,099           |

**Note 6. Earnings per Common Share**

The table below summarizes the weighted-average number of common shares outstanding included in the calculation of basic and diluted earnings per common share (EPS) for the three and nine months ended May 31, 2009 and 2008:

|   | Three Months Ended May 31, |            | Nine Months Ended May 31, |            |
|---|----------------------------|------------|---------------------------|------------|
|   | 2009                       | 2008       | 2009                      | 2008       |
| Weighted-average common shares outstanding, basic   | 16,501,046                 | 16,430,730 | 16,499,159                | 16,700,457 |
| Weighted-average dilutive securities                | 145,370                    | 149,609    | 157,451                   | 180,099    |
| Weighted-average common shares outstanding, diluted | 16,646,416                 | 16,580,339 | 16,656,610                | 16,880,556 |

For the three months ended May 31, 2009 and 2008, there were 1,243,156 and 638,277 weighted-average stock options outstanding, respectively, that were excluded from the calculation of diluted EPS as a result of the stock 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 nine months ended May 31, 2009 and 2008, there were 1,039,534 and 409,014 weighted-average stock options outstanding, respectively, that were excluded from the calculation of diluted EPS as a result of the stock options having an exercise price greater than or equal to the average market value of the Company's common stock during the period.

Additionally, for the nine months ended May 31, 2008, there were 142,779 weighted-average stock options outstanding that were excluded from the calculation of diluted EPS under the treasury stock method as they were anti-dilutive. These stock options were anti-dilutive since the number of shares to be repurchased using the assumed proceeds would be in excess of the number of shares to be issued upon exercise of such stock options. The assumed proceeds are comprised of (i) amounts option holders must pay for exercising stock options, (ii) the amount of compensation costs for future services that the Company has not yet recognized as expense, and (iii) the amount of tax benefits that would be

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recorded in additional paid-in capital upon exercise of the stock options. For the three and nine months ended May 31, 2009 and the three months ended May 31, 2008, there were no additional anti-dilutive weighted-average stock options outstanding excluded from the calculation of diluted EPS under the treasury stock method.

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**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****Note 7. Related Parties**

VML, a Delaware company, was formed in April 2001, at which time the Company acquired a 30% membership interest. VML makes profit distributions to the Company and the 70% owner on a discretionary basis in proportion to each party's respective interest. VML currently serves as one of the Company's contract manufacturers for certain homecare and cleaning products. During fiscal year 2008, VML acquired a significant new customer, which resulted in manufacturing disruptions. In addition, VML filed for Chapter 11 bankruptcy on April 24, 2009. As a result of these developments, the Company transitioned its sourcing to alternative suppliers to significantly reduce its reliance on VML as a manufacturer.

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 FIN 46(R), 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 earnings or losses of VML 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 losses related to its investment in VML of \$0 and \$229,000 for the three months ended May 31, 2009 and 2008, respectively, and \$435,000 and \$248,000 for the nine months ended May 31, 2009 and 2008, respectively. The Company's investment in VML was written off in full as of February 28, 2009.

Cost of products sold which were purchased from VML, net of rebates and equity earnings or losses, was approximately \$3.8 million and \$5.9 million for the three months ended May 31, 2009 and 2008, respectively, and \$11.6 million and \$17.1 million for the nine months ended May 31, 2009 and 2008, respectively. The Company had product payables to VML of \$0.2 million and \$0.5 million as of May 31, 2009 and August 31, 2008, respectively. Additionally, the Company receives rental income from VML, which is recorded as a component of other income, net in the Company's condensed consolidated statements of operations.

**Note 8. Commitments and Contingencies**

The Company has relationships with various suppliers (or 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.

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of May 31, 2009, such commitments totaled approximately \$2.0 million.

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 consolidated 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. The amended complaint seeks to remedy such allegedly wrongful conduct: (i) by requiring the Company to identify all consumers who have purchased the ATBCs and to return money as may be ordered by the court; and (ii) by the granting of other equitable relief, interest, attorneys' fees and costs. 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 its pending 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 Company's consolidated financial position, results of operations or cash flows. There is not sufficient information to estimate the Company's exposure at this time.



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**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Since 2004, the Company has been named as a defendant in 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 Benzene Lawsuits). 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. The Company believes its products have always been formulated without containing benzene and that the facts developed in litigation to date support this position. The plaintiffs in the Benzene Lawsuits typically seek damages in unspecified amounts for injuries or death attributable to a form of cancer linked to exposure to benzene. The Company is unable to quantify the total amount of damages asserted by the plaintiffs in the Benzene Lawsuits. 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 consolidated financial position or results of operations. The Company is vigorously defending these lawsuits. 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 increases, it is reasonably possible that such costs of defense may materially affect the Company's consolidated financial position, 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 May 31, 2009.

From time to time, the Company enters into indemnification agreements with certain contractual parties in the ordinary course of business, including agreements with lenders, lessors, contract manufacturers, marketing distributors, customers and certain vendors. All such indemnification agreements are entered into in the context of the particular agreements and are provided in an attempt to properly allocate risk of loss in connection with the consummation of the underlying contractual arrangements. Although the maximum amount of future payments that the Company could be required to make under these indemnification agreements is unlimited, management believes that the Company maintains adequate levels of insurance coverage to protect the Company with respect to most potential claims arising from such agreements and that such agreements do not otherwise have value separate and apart from the liabilities incurred in the ordinary course of the Company's business. Thus, no liabilities have been recorded with respect to such indemnification agreements as of May 31, 2009.

**Note 9. Income Taxes**

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

The provision for income taxes was 32.4% of income before income taxes for the nine months ended May 31, 2009 compared to 33.7% for the corresponding period of the prior fiscal year. The decrease in the effective tax rate was primarily due to a California tax law enacted during the second quarter of fiscal year 2009. The change resulted in the revaluation of the Company's deferred tax assets and liabilities as of the law's effective date. The impact was a tax benefit for the nine months ended May 31, 2009 of approximately \$0.5 million.



**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

As of May 31, 2009 and August 31, 2008, the total amount of unrecognized tax benefits was \$1.7 million, of which \$1.0 million and \$1.1 million would affect the effective tax rate if recognized at May 31, 2009 and August 31, 2008, respectively. As of May 31, 2009 and August 31, 2008, the total balance of accrued interest and penalties related to unrecognized tax benefits was \$0.3 million and \$0.4 million, respectively. The gross liability for income taxes related to unrecognized tax benefits is included in other long-term liabilities in the Company's condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for each of the three- and nine-month periods ended May 31, 2009 and 2008.

The Company is subject to taxation in the U.S. and in various state 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 2006. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2004 are no longer subject to examination. The Company is currently under audit in various state and local jurisdictions for fiscal years 2004 through 2007. The Company has estimated that up to \$0.2 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

During the nine months ended May 31, 2009, the Company recorded liabilities related to unrecognized tax benefits of \$0.2 million in the current fiscal year, offset by recognized tax benefits of \$0.2 million due to expiring statutes.

**Note 10. 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 portion of costs from headquarters relates to the Americas segment both as a percentage of time and sales. Therefore, any allocation to other segments would be arbitrary.

The tables below present information about reportable segments and net sales by product line as of and for the three and nine months ended May 31, 2009 and 2008 (in thousands):

**As of and for the Three Months Ended May 31:**

|                                       | Americas   | Europe    | Asia-Pacific | Total      |
|---------------------------------------|------------|-----------|--------------|------------|
| <b>2009</b>                           |            |           |              |            |
| Net sales                             | \$ 41,084  | \$ 21,675 | \$ 6,057     | \$ 68,816  |
| Income from operations <sup>(1)</sup> | \$ 6,449   | \$ 4,012  | \$ 694       | \$ 11,155  |
| Depreciation and amortization expense | \$ 626     | \$ 291    | \$ 36        | \$ 953     |
| Interest income                       | \$ 4       | \$ 19     | \$ 6         | \$ 29      |
| Interest expense                      | \$ 595     | \$        | \$ 2         | \$ 597     |
| Total assets                          | \$ 179,972 | \$ 66,053 | \$ 7,943     | \$ 253,968 |
| <b>2008</b>                           |            |           |              |            |
| Net sales                             | \$ 48,638  | \$ 26,252 | \$ 7,214     | \$ 82,104  |
| Income from operations <sup>(1)</sup> | \$ 7,359   | \$ 4,210  | \$ 682       | \$ 12,251  |
| Depreciation and amortization expense | \$ 533     | \$ 358    | \$ 46        | \$ 937     |
| Interest income                       | \$ 108     | \$ 184    | \$ 15        | \$ 307     |
| Interest expense                      | \$ 736     | \$        | \$ 4         | \$ 740     |
| Total assets                          | \$ 191,713 | \$ 69,329 | \$ 8,558     | \$ 269,600 |

(1) For the three months ended May 31, 2009 and 2008, income from operations for the Americas segment included costs from headquarters of \$3.8 million and \$3.9 million, respectively.



**Table of Contents****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****As of and for the Nine Months Ended May 31:**

|                                       | Americas   | Europe    | Asia-Pacific | Total      |
|---------------------------------------|------------|-----------|--------------|------------|
| <b>2009</b>                           |            |           |              |            |
| Net sales                             | \$ 123,846 | \$ 71,355 | \$ 19,049    | \$ 214,250 |
| Income from operations <sup>(2)</sup> | \$ 11,974  | \$ 14,209 | \$ 2,385     | \$ 28,568  |
| Depreciation and amortization expense | \$ 1,756   | \$ 872    | \$ 105       | \$ 2,733   |
| Interest income                       | \$ 67      | \$ 282    | \$ 28        | \$ 377     |
| Interest expense                      | \$ 1,889   | \$        | \$ 6         | \$ 1,895   |
| Total assets                          | \$ 179,972 | \$ 66,053 | \$ 7,943     | \$ 253,968 |
| <b>2008</b>                           |            |           |              |            |
| Net sales                             | \$ 134,080 | \$ 84,405 | \$ 21,717    | \$ 240,202 |
| Income from operations <sup>(2)</sup> | \$ 15,779  | \$ 16,152 | \$ 3,177     | \$ 35,108  |
| Depreciation and amortization expense | \$ 1,571   | \$ 1,094  | \$ 134       | \$ 2,799   |
| Interest income                       | \$ 658     | \$ 571    | \$ 34        | \$ 1,263   |
| Interest expense                      | \$ 2,479   | \$        | \$ 13        | \$ 2,492   |
| Total assets                          | \$ 191,713 | \$ 69,329 | \$ 8,558     | \$ 269,600 |

(2) For the nine months ended May 31, 2009 and 2008, income from operations for the Americas segment included costs from headquarters of \$12.7 million and \$12.2 million, respectively.

**Net Sales by Product Line:**

|                                    | Three Months Ended May 31, |           | Nine Months Ended May 31, |            |
|------------------------------------|----------------------------|-----------|---------------------------|------------|
|                                    | 2009                       | 2008      | 2009                      | 2008       |
| Multi-purpose maintenance products | \$ 52,559                  | \$ 61,187 | \$ 165,518                | \$ 177,810 |
| Homecare and cleaning products     | 16,257                     | 20,917    | 48,732                    | 62,392     |
|                                    | \$ 68,816                  | \$ 82,104 | \$ 214,250                | \$ 240,202 |

**Note 11. Subsequent Event**

On June 23, 2009, the Company's Board of Directors declared a cash dividend of \$0.25 per share payable on July 31, 2009 to shareholders of record on July 17, 2009.

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

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

The following information is provided as a supplement to, and should be read in conjunction with, the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2008 filed with the Securities and Exchange Commission ( SEC ) on October 23, 2008.

#### **Overview**

##### ***The Company***

WD-40 Company, based in San Diego, California, is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of doer and on-the-job users by leveraging and building the brand fortress of the Company. We market two multi-purpose maintenance products, WD-40® and 3-IN-ONE® Oil, and eight homecare and cleaning products, 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, 1001® carpet and household cleaners and rug and room deodorizers and Lava® and Solvol® heavy-duty hand cleaners.

Multi-purpose maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the U.K., Australia and the Pacific Rim. We sell our products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers.

We plan to continue to leverage and build the brand fortress of our Company by developing and acquiring brands that deliver a unique, high value to end users and that can be distributed across multiple trade channels in one or more areas of the world.

#### **Highlights**

*Consolidated net sales decreased 16% for the third quarter of the current fiscal year compared to the corresponding period of the prior fiscal year due to decreases in Europe, Asia-Pacific and the Americas of 17%, 16 % and 16%, respectively. On a year-to-date basis, consolidated net sales decreased 11% compared to the corresponding period of the prior fiscal year due to decreases in Europe, Asia-Pacific and the Americas of 15%, 12% and 8%, respectively.*

*Net income decreased 15% and 19% for the three and nine months ended May 31, 2009, respectively, compared to the corresponding periods of the prior fiscal year.*

*Changes in foreign currency exchange rates for the third quarter of the current fiscal year compared to the corresponding period of the prior fiscal year had an unfavorable impact on our net sales and net income. Net sales and net income for the third quarter of the current fiscal year translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been \$78.4 million and \$7.8 million, respectively. Thus, on a constant currency basis, net sales and net income would have decreased 5% and 4%, respectively, compared to the corresponding period of the prior fiscal year. On a constant currency basis, current fiscal year-to-date net sales and net income would have been \$237.8 million and \$22.0 million, respectively, resulting in decreases of 1% and 4%, respectively. Note that our constant currency disclosures represent the translation of our current fiscal year revenues and expenses from the functional currencies of our subsidiaries to U.S. dollars utilizing the exchange rates in effect for the corresponding period of the prior fiscal year.*

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*Sales of multi-purpose maintenance products decreased 14% for the current fiscal year third quarter compared to the corresponding period of the prior fiscal year primarily due to declines in Europe and the Americas of 17% and 11%, respectively. On a year-to-date basis, sales of multi-purpose maintenance products decreased 7% compared to the corresponding period of the prior fiscal year primarily due to declines in Europe and Asia-Pacific of 16% and 12%, respectively, partially offset by an increase in the Americas of 2%. The year-to-date sales decline in the Europe segment was due solely to the impact of the changes in foreign currency exchange rates. In local currency, the Europe segment experienced an increase of 8% in sales of multi-purpose maintenance products.*

*The categories in which our homecare and cleaning products are sold are very competitive by nature. Sales of our homecare and cleaning products decreased 22% for the current fiscal year third quarter compared to the corresponding period of the prior fiscal year as a result of sales decreases in the Americas, Europe and Asia-Pacific of 24%, 18% and 14%, respectively. On a year-to-date basis, sales of homecare and cleaning products decreased 22% compared to the corresponding period of the prior fiscal year due to declines in the Americas, Europe and Asia-Pacific of 24%, 15% and 14%, respectively. The year-to-date sales decline in the Europe segment was due solely to the impact of the changes in foreign currency exchange rates. In local currency, the Europe segment experienced an increase of 10% in sales of homecare and cleaning products.*

*Our gross profit as a percentage of net sales increased to 50.9% from 46.5% for the third quarter of fiscal year 2009 compared to the corresponding period of the prior fiscal year, primarily due to the impact of worldwide price increases implemented on certain products during fiscal year 2009 and during each of the last three fiscal years. These price increases were implemented to combat the continuous rise in costs of components and raw materials in recent years.*

**Results of Operations****Three Months Ended May 31, 2009 Compared to Three Months Ended May 31, 2008****Operating Items**

The following table summarizes operating data for our consolidated operations for the three months ended May 31, 2009 and 2008 (in thousands, except percentages and per share amounts):

|                                    | <b>Three Months Ended May 31,<br/>Change from<br/>Prior Year</b> |             |                |                |
|------------------------------------|--|-------------|----------------|----------------|
|                                    | <b>2009</b>  | <b>2008</b> | <b>Dollars</b> | <b>Percent</b> |
| Net sales:                         |  |             |                |                |
| Multi-purpose maintenance products | \$ 52,559  | \$ 61,187   | \$ (8,628)     | (14)%          |
| Homecare and cleaning products     | 16,257   | 20,917      | (4,660)        | (22)%          |
| Total net sales                    | 68,816   | 82,104      | (13,288)       | (16)%          |
| Cost of products sold              | 33,821   | 43,921      | (10,100)       | (23)%          |
| Gross profit                       | 34,995   | 38,183      | (3,188)        | (8)%           |
| Operating expenses                 | 23,840   | 25,932      | (2,092)        | (8)%           |
| Income from operations             | \$ 11,155  | \$ 12,251   | \$ (1,096)     | (9)%           |
| Net income                         | \$ 6,897   | \$ 8,073    | \$ (1,176)     | (15)%          |
| Earnings per common share diluted  | \$ 0.41  | \$ 0.49     | \$ (0.08)      | (16)%          |



**Table of Contents****Net Sales by Segment**

The following table summarizes net sales by segment for the three months ended May 31, 2009 and 2008 (in thousands, except percentages):

|              | <b>Three Months Ended May 31,</b> |             |                                   |                |
|--------------|-----------------------------------|-------------|-----------------------------------|----------------|
|              |                                   |             | <b>Change from<br/>Prior Year</b> |                |
|              | <b>2009</b>                       | <b>2008</b> | <b>Dollars</b>                    | <b>Percent</b> |
| Americas     | \$ 41,084                         | \$ 48,638   | \$ (7,554)                        | (16)%          |
| Europe       | 21,675                            | 26,252      | (4,577)                           | (17)%          |
| Asia-Pacific | 6,057                             | 7,214       | (1,157)                           | (16)%          |
|              | \$ 68,816                         | \$ 82,104   | \$ (13,288)                       | (16)%          |

**Americas**

The following table summarizes net sales by product line for the Americas segment for the three months ended May 31, 2009 and 2008 (in thousands, except percentages):

|                                    | <b>Three Months Ended May 31,</b> |             |                                   |                |
|------------------------------------|-----------------------------------|-------------|-----------------------------------|----------------|
|                                    |                                   |             | <b>Change from<br/>Prior Year</b> |                |
|                                    | <b>2009</b>                       | <b>2008</b> | <b>Dollars</b>                    | <b>Percent</b> |
| Multi-purpose maintenance products | \$ 27,997                         | \$ 31,514   | \$ (3,517)                        | (11)%          |
| Homecare and cleaning products     | 13,087                            | 17,124      | (4,037)                           | (24)%          |
|                                    | \$ 41,084                         | \$ 48,638   | \$ (7,554)                        | (16)%          |
| <b>% of consolidated net sales</b> | <b>60%</b>                        | <b>59%</b>  |                                   |                |

Sales in the Americas decreased to \$41.1 million, down \$7.6 million, or 16%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the three months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have been \$41.7 million in the Americas segment. Thus, on a constant currency basis, sales would have decreased by \$6.9 million, or 14%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

Sales of multi-purpose maintenance products in the Americas for the three months ended May 31, 2009 decreased 11% compared to the corresponding period in the prior fiscal year primarily due to a sales decrease of 10% in the U.S. Sales of multi-purpose maintenance products in the U.S. declined due to lost distribution and the impact of customers continuing to reduce inventory levels in response to general economic conditions, partially offset by price increases implemented during the first quarter of the current fiscal year.

Sales of homecare and cleaning products in the Americas decreased 24% for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due to sales declines across all homecare and cleaning brands throughout the Americas segment. The most significant decreases related to sales of Carpet Fresh and automatic toilet bowl cleaners which were down 53% and 26%, respectively, compared to the corresponding period of the prior fiscal year. These declines were the result of several factors, including lost distribution, declining product categories or shifts within these categories, the effect of competitive factors and challenges due to general economic conditions. See further discussion of the potential impairment of the indefinite-lived intangible assets related to our homecare and cleaning products beginning on page 29 of this report.

Our homecare and cleaning products compete in a highly competitive market and continue to face diminishing product categories or shifts within these categories. Additionally, as a result of general economic conditions, our sales are subject to changes in the manner in which

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customers purchase and manage inventory levels and/or display and promote our products within their stores. We are addressing these challenges through our focus on increased consumer-targeted marketing tactics, trade promotions and new distribution channels that reduce our dependence on the volatile grocery trade channel, as well as through the continued renovation of certain of our homecare and cleaning product lines.



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For the Americas segment, 86% of sales came from the U.S., and 14% came from Canada and Latin America for the three months ended May 31, 2009, compared to the distribution for the three months ended May 31, 2008, when 85% of sales came from the U.S. and 15% came from Canada and Latin America.

**Europe**

The following table summarizes net sales by product line for the Europe segment for the three months ended May 31, 2009 and 2008 (in thousands, except percentages):

|                                    | <b>Three Months Ended May 31,</b> |                  |                                   |                |
|------------------------------------|-----------------------------------|------------------|-----------------------------------|----------------|
|                                    | <b>2009</b>                       | <b>2008</b>      | <b>Change from<br/>Prior Year</b> |                |
|                                    |                                   |                  | <b>Dollars</b>                    | <b>Percent</b> |
| Multi-purpose maintenance products | \$ 19,581                         | \$ 23,712        | \$ (4,131)                        | (17)%          |
| Homecare and cleaning products     | 2,094                             | 2,540            | (446)                             | (18)%          |
|                                    | <b>\$ 21,675</b>                  | <b>\$ 26,252</b> | <b>\$ (4,577)</b>                 | <b>(17)%</b>   |
| <b>% of consolidated net sales</b> | <b>31%</b>                        | <b>32%</b>       |                                   |                |

Sales in Europe decreased to \$21.7 million, down \$4.6 million, or 17%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the three months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have produced sales of \$29.9 million in the Europe segment. Thus, on a constant currency basis, sales would have increased by \$3.6 million, or 14%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

The countries in Europe where we sell through a direct sales force include the U.K., Spain, Portugal, Italy, France, Germany, the Netherlands, Denmark and Austria. Overall, sales from these direct markets decreased 19% for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year and accounted for 71% of the region's sales, compared to 72% for the corresponding period in the prior fiscal year. For the three months ended May 31, 2009, we experienced sales decreases in U.S. dollars throughout the Europe segment as follows: German sales region, 31%; Italy, 24%; U.K., 15%; France, 14%; and Spain, 3%.

While most of the countries throughout the Europe segment experienced sales declines as customers reduced inventory levels in response to general economic conditions, the U.K. and France, which represented 39% and 20% of the total direct sales in the Europe segment, respectively, experienced sales growth of 16% and 2%, respectively, in their respective local currencies for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. The sales growth in the U.K. was due primarily to new distribution, while the sales growth in France was driven by the continued growth of the WD-40 Smart Straw and the 3-IN-ONE Pro product line. However, the unfavorable impact of changes in foreign currency exchange rates period over period more than offset the sales growth in local currencies in the U.K. and France.

In the countries in which we sell through local distributors, sales decreased 13% for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due primarily to the unfavorable impact of changes in foreign currency exchange rates period over period. In local currencies, sales for the distributor markets were essentially flat for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. The distributor market accounted for approximately 29% of the total Europe segment sales for the three months ended May 31, 2009, compared to 28% for the corresponding period of the prior fiscal year.

**Table of Contents**Asia-Pacific

The following table summarizes net sales by product line for the Asia-Pacific segment for the three months ended May 31, 2009 and 2008 (in thousands, except percentages):

|                                    | Three Months Ended May 31, |           |                           |         |
|------------------------------------|----------------------------|-----------|---------------------------|---------|
|                                    | 2009                       | 2008      | Change from<br>Prior Year |         |
|                                    |                            |           | Dollars                   | Percent |
| Multi-purpose maintenance products | \$ 4,981                   | \$ 5,961  | \$ (980)                  | (16)%   |
| Homecare and cleaning products     | 1,076                      | 1,253     | (177)                     | (14)%   |
|                                    | \$ 6,057                   | \$ 7,214  | \$ (1,157)                | (16)%   |
| <b>% of consolidated net sales</b> | <b>9%</b>                  | <b>9%</b> |                           |         |

In the Asia-Pacific segment, which includes Australia and Asia, sales decreased to \$6.1 million, down \$1.2 million, or 16%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the three months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have produced sales of \$6.8 million in the Asia-Pacific segment. Thus, on a constant currency basis, sales would have decreased by \$0.4 million, or 6%, for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

Sales in Asia decreased 12% for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year primarily due to lower sales of multi-purpose maintenance products across most of the region, including China, India, the Philippines and Taiwan. Sales in China decreased 32%, which represented 86% of the total decrease in Asia, while sales across the rest of the Asia region decreased 3%. Sales of multi-purpose maintenance products in China declined due to the impact of general economic conditions. Certain markets throughout the rest of the Asia region also experienced sales declines while others experienced increased sales due to the timing of promotional activities.

Sales in Australia decreased 23% for the three months ended May 31, 2009 compared to the corresponding period in the prior fiscal year due to the unfavorable impact of foreign currency exchange rates. On a constant currency basis, sales would have increased by 6% for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due to increased promotional activities and price increases implemented during the first quarter of the current fiscal year.

**Gross Profit**

Gross profit was \$35.0 million, or 50.9% of net sales, for the three months ended May 31, 2009 compared to \$38.2 million, or 46.5% of net sales, for the corresponding period of the prior fiscal year. The increase in gross profit as a percentage of net sales was due primarily to worldwide price increases implemented during the first quarter of fiscal year 2009 which added 5.3 percentage points to our gross profit percentage for the third quarter of fiscal year 2009.

Gross profit percentage also benefited from a decline in costs of petroleum-based materials, product conversions, sourcing changes and the timing of advertising, promotional and other discounts. The decrease in costs of petroleum-based materials had a favorable impact on our gross profit percentage of 2.0 percentage points for the third quarter of fiscal year 2009, while product conversions and sourcing changes, which occurred in the U.S. during last fiscal year's fourth quarter, had a positive impact on our gross profit percentage of 0.3 percentage points for the third quarter of fiscal year 2009.

In general, shifts in product and customer 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 profit percentage from period to period. Examples of advertising, promotional and other discounts include coupon redemptions, consideration and allowances given to retailers for space and/or favorable display positions in their stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives. During the third quarter of fiscal year 2009, advertising, promotional and other discounts decreased compared to the corresponding period of the prior fiscal year, positively impacting gross profit percentage by 0.4 percentage points. The decrease in such discounts was due to the fact that a greater percentage of sales during the third quarter of fiscal year 2008 was subject to promotional allowances.



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Partially offsetting the favorable impacts to gross profit percentage discussed above were higher costs for aerosol cans, which negatively impacted our gross profit percentage by 2.0 percentage points for the third quarter of fiscal year 2009, and the closeout of slow-moving inventory, which negatively impacted our gross profit percentage by 0.5 percentage points. We began to experience a significant increase in the cost of aerosol cans at the end of the second quarter of fiscal year 2009, primarily due to the cost of tinplate used to manufacture such cans. Tinplate pricing is set annually and is independent of the movements in the cost of steel on the spot market. While the cost of steel on the spot market has experienced recent declines, the cost of aerosol cans has not benefited from this recent trend.

Note that our gross profits 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. These costs totaled \$3.1 million and \$4.9 million for the three months ended May 31, 2009 and 2008, respectively.

***Selling, General and Administrative Expenses***

Selling, general and administrative ( SG&A ) expenses for the third quarter of fiscal year 2009 decreased to \$18.4 million, or 26.8% of net sales, from \$21.4 million, or 26.1% of net sales, for the corresponding period of the prior fiscal year. The decrease in SG&A expenses was largely attributable to the impact of foreign currency translation and to lower freight costs. Changes in foreign currency exchange rates compared to the corresponding period of the prior fiscal year decreased SG&A expenses by \$2.6 million for the three months ended May 31, 2009. Thus, on a constant currency basis, SG&A expenses for the third quarter of fiscal year 2009 would have been \$21.0 million for a decrease of \$0.4 million, or 2%, from the corresponding period of the prior fiscal year. Freight costs decreased \$1.3 million due to reduced fuel costs, improved shipping efficiencies and lower sales revenue. Other miscellaneous expenses, including stock-based compensation, professional services costs and bad debt expense, decreased by \$0.4 million. Partially offsetting these decreases was an increase in employee-related costs, which include salaries, profit sharing and other fringe benefits, of \$1.3 million due to annual compensation increases and higher staffing levels primarily to support the growth of international operations.

We continued our research and development investment in support of our focus on innovation and renovation. Research and development costs for the three months ended May 31, 2009 and 2008 were \$0.9 million and \$0.7 million, respectively. Our new-product development team, 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 our current and prospective outsource suppliers.

***Advertising and Sales Promotion Expenses***

Advertising and sales promotion expenses increased to \$5.3 million, or 7.7% of net sales, for the third quarter of fiscal year 2009, up from \$4.3 million, or 5.3% of net sales, for the corresponding period of the prior fiscal year. The increase was due to the timing of investment in advertising activities, partially offset by the favorable impact of changes in foreign currency exchange rates period over period. On a constant currency basis, advertising and sales promotion expenses for the three months ended May 31, 2009 would have been \$6.2 million for an increase of \$1.9 million, or 44%, over the corresponding period of the prior fiscal year. In the current fiscal year third quarter, we increased our level of advertising in the U.S. to promote the Spot Shot brand of homecare and cleaning products. Investment in global advertising and sales promotion expenses for fiscal year 2009 is expected to be in the range of 6.5% to 7.5% 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. For the three months ended May 31, 2009, total promotional costs recorded as a reduction to sales were \$4.1 million compared to \$5.1 million for the corresponding period of the prior fiscal year.

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Therefore, our total investment in advertising and sales promotion activities totaled \$9.4 million for each of the three-month periods ended May 31, 2009 and 2008.

***Amortization of Definite-lived Intangible Asset Expense***

Amortization of our definite-lived intangible asset was \$107,000 and \$147,000 for the three months ended May 31, 2009 and 2008, respectively. The amortization relates to the non-contractual customer relationships acquired in the 1001 acquisition completed by the Europe segment in fiscal year 2004. This intangible asset is recorded and amortized in pounds sterling on a straight-line basis over its estimated eight-year life and is converted to U.S. dollars for reporting purposes. Therefore, any fluctuations in amortization from period to period are the result of changes in foreign currency exchange rates.

**Non-Operating Items**

The following table summarizes non-operating income and expenses for our consolidated operations for the three months ended May 31, 2009 and 2008 (in thousands):

|                             | <b>Three Months Ended May 31,</b> |             |               |
|-----------------------------|-----------------------------------|-------------|---------------|
|                             | <b>2009</b>                       | <b>2008</b> | <b>Change</b> |
| Interest expense, net       | \$ 568                            | \$ 433      | \$ 135        |
| Other (expense) income, net | \$ (157)                          | \$ 212      | \$ (369)      |
| Provision for income taxes  | \$ 3,533                          | \$ 3,957    | \$ (424)      |

***Interest Expense, Net***

Interest expense, net increased \$0.1 million for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Although interest expense decreased due to the lower principal balance on long-term borrowings resulting from the annual \$10.7 million principal payment made in October 2008, this decrease was more than offset by a larger decrease in interest income as a result of lower interest rates during the third quarter of fiscal year 2009 compared to the corresponding period of the prior fiscal year.

***Other (Expense) Income, Net***

Other (expense) income, net decreased \$0.4 million for the three months ended May 31, 2009 compared to the corresponding period of the prior fiscal year primarily due to foreign currency exchange losses in Europe.

***Provision for Income Taxes***

The provision for income taxes was 33.9% of income before income taxes for the three months ended May 31, 2009, an increase from 32.9% for the corresponding period of the prior fiscal year. The increase in the effective tax rate was primarily due to a 0.4% reduction in benefits from expiring federal and state statutes for the three months ended May 31, 2009 and a 0.6% reduction related to an increase in the annual effective tax rate and its impact on quarterly earnings in the current quarter.

***Net Income***

Net income was \$6.9 million, or \$0.41 per common share on a fully diluted basis for the three months ended May 31, 2009, compared to \$8.1 million, or \$0.49 per common share on a fully diluted basis for the three months ended May 31, 2008. The change in foreign currency exchange rates period over period had an unfavorable impact of \$0.9 million on net income for the three months ended May 31, 2009. Thus, on a constant currency basis, net income for the three months ended May 31, 2009 would have been \$7.8 million.

**Table of Contents***Nine Months Ended May 31, 2009 Compared to Nine Months Ended May 31, 2008***Operating Items**

The following table summarizes operating data for our consolidated operations for the nine months ended May 31, 2009 and 2008 (in thousands, except percentages and per share amounts):

|                                    | Nine Months Ended May 31, |            | Change from<br>Prior Year |         |
|------------------------------------|---------------------------|------------|---------------------------|---------|
|                                    | 2009                      | 2008       | Dollars                   | Percent |
| Net sales:                         |                           |            |                           |         |
| Multi-purpose maintenance products | \$ 165,518                | \$ 177,810 | \$ (12,292)               | (7)%    |
| Homecare and cleaning products     | 48,732                    | 62,392     | (13,660)                  | (22)%   |
| Total net sales                    | 214,250                   | 240,202    | (25,952)                  | (11)%   |
| Cost of products sold              | 109,873                   | 126,409    | (16,536)                  | (13)%   |
| Gross profit                       | 104,377                   | 113,793    | (9,416)                   | (8)%    |
| Operating expenses                 | 75,809                    | 78,685     | (2,876)                   | (4)%    |
| Income from operations             | \$ 28,568                 | \$ 35,108  | \$ (6,540)                | (19)%   |
| Net income                         | \$ 18,665                 | \$ 22,969  | \$ (4,304)                | (19)%   |
| Earnings per common share diluted  | \$ 1.12                   | \$ 1.36    | \$ (0.24)                 | (18)%   |

**Net Sales by Segment**

The following table summarizes net sales by segment for the nine months ended May 31, 2009 and 2008 (in thousands, except percentages):

|              | Nine Months Ended May 31, |            | Change from<br>Prior Year |         |
|--------------|---------------------------|------------|---------------------------|---------|
|              | 2009                      | 2008       | Dollars                   | Percent |
| Americas     | \$ 123,846                | \$ 134,080 | \$ (10,234)               | (8)%    |
| Europe       | 71,355                    | 84,405     | (13,050)                  | (15)%   |
| Asia-Pacific | 19,049                    | 21,717     | (2,668)                   | (12)%   |
|              | \$ 214,250                | \$ 240,202 | \$ (25,952)               | (11)%   |

**Americas**

The following table summarizes net sales by product line for the Americas segment for the nine months ended May 31, 2009 and 2008 (in thousands, except percentages):

Nine Months Ended May 31,

|                                    | 2009       | 2008       | Change from<br>Prior Year |         |
|------------------------------------|------------|------------|---------------------------|---------|
|                                    |            |            | Dollars                   | Percent |
| Multi-purpose maintenance products | \$ 85,056  | \$ 83,328  | \$ 1,728                  | 2%      |
| Homecare and cleaning products     | 38,790     | 50,752     | (11,962)                  | (24)%   |
|                                    | \$ 123,846 | \$ 134,080 | \$ (10,234)               | (8)%    |
| <b>% of consolidated net sales</b> | <b>58%</b> | <b>56%</b> |                           |         |

Sales in the Americas decreased to \$123.8 million, down \$10.2 million, or 8%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the nine months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have produced sales of \$125.5 million in the Americas segment. Thus, on a constant currency basis, sales would have decreased by \$8.6 million, or 6%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

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Sales of multi-purpose maintenance products in the Americas for the nine months ended May 31, 2009 increased \$1.7 million, or 2%, compared to the corresponding period in the prior fiscal year primarily due to sales growth in the U.S. of 4%. Sales of multi-purpose maintenance products in the U.S. increased due to price increases and promotional activities during the first quarter of fiscal year 2009; however, such growth was partially offset by lost distribution and sales decreases during the subsequent quarters of fiscal year 2009 as customers continued to reduce inventory levels in response to general economic conditions.

Sales of homecare and cleaning products in the Americas decreased \$12.0 million, or 24%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due to sales declines across all homecare and cleaning brands throughout the Americas segment. The most significant decreases related to sales of Carpet Fresh and automatic toilet bowl cleaners which were down 40% and 28%, respectively, compared to the corresponding period of the prior fiscal year. These declines were the result of several factors, including lost distribution, declining categories or shifts within these categories, the effect of competitive factors and challenges due to general economic conditions. See further discussion of the potential impairment of the indefinite-lived intangible assets related to our homecare and cleaning products beginning on page 29 of this report.

Our homecare and cleaning products compete in a highly competitive market and continue to face diminishing product categories or shifts within these categories. Additionally, as a result of general economic conditions, our sales are subject to changes in the manner in which customers purchase and manage inventory levels and/or display and promote our products within their stores. We are addressing these challenges through our focus on increased consumer-targeted marketing tactics, trade promotions and new distribution channels that reduce our dependence on the volatile grocery trade channel, as well as through the continued renovation of certain of our homecare and cleaning product lines.

For the Americas segment, 83% of sales came from the U.S., and 17% came from Canada and Latin America for the nine months ended May 31, 2009, compared to the distribution for the nine months ended May 31, 2008, when 82% of sales came from the U.S., and 18% came from Canada and Latin America.

**Europe**

The following table summarizes net sales by product line for the Europe segment for the nine months ended May 31, 2009 and 2008 (in thousands, except percentages):

|                                    | Nine Months Ended May 31, |            |                           |         |
|------------------------------------|---------------------------|------------|---------------------------|---------|
|                                    | 2009                      | 2008       | Change from<br>Prior Year |         |
|                                    |                           |            | Dollars                   | Percent |
| Multi-purpose maintenance products | \$ 64,608                 | \$ 76,463  | \$ (11,855)               | (16)%   |
| Homecare and cleaning products     | 6,747                     | 7,942      | (1,195)                   | (15)%   |
|                                    | \$ 71,355                 | \$ 84,405  | \$ (13,050)               | (15)%   |
| <b>% of consolidated net sales</b> | <b>33%</b>                | <b>35%</b> |                           |         |

Sales in Europe decreased to \$71.4 million, down \$13.0 million, or 15%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the nine months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have produced sales of \$91.6 million in the Europe segment. Thus, on a constant currency basis, sales would have increased by approximately \$7.2 million, or 9%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

The countries in Europe where we sell through a direct sales force include the U.K., Spain, Portugal, Italy, France, Germany, the Netherlands, Denmark and Austria. Overall, sales from these direct markets decreased 16% for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year and accounted for 68% of the region's sales for the nine months ended May 31, 2009, consistent with the corresponding period of the prior fiscal year. For the nine months ended May 31, 2009, we experienced sales decreases in U.S. dollars throughout the Europe segment as follows: German sales region, 23%; Italy, 20%; Spain, 18%; the U.K., 16%; and France, 3%.





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While most of the countries throughout the Europe segment experienced sales declines in local currencies as customers reduced inventory levels in response to general economic conditions, the U.K. and France experienced sales growth of 9% and 10%, respectively, in their respective local currencies for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. The sales growth in the U.K. was due primarily to increased sales of our multi-purpose maintenance products as a result of price increases and promotional activity, as well as new distribution. However, such growth was partially offset by sales declines as customers reduced inventory levels in response to general economic conditions. The sales growth in France was the result of increased promotional activity during the first quarter of fiscal year 2009, as well as the continued growth in sales of the WD-40 brand, including the WD-40 Smart Straw, and increased distribution of the 3-IN-ONE Professional line of products. The overall sales growth in the U.K. and France in their respective local currencies was more than offset by the unfavorable impact of changes in foreign currency exchange rates period over period.

In the countries in which we sell through local distributors, sales decreased 14% for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due primarily to the unfavorable impact of changes in foreign currency exchange rates period over period. In local currencies, sales for the distributor markets were essentially flat for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. The distributor market accounted for approximately 32% of the total Europe segment sales for the nine months ended May 31, 2009, consistent with the corresponding period of the prior fiscal year. In the long term, we expect these markets to continue to experience growth in distribution and usage resulting from increased market penetration and brand awareness.

**Asia-Pacific**

The following table summarizes net sales by product line for the Asia-Pacific segment for the nine months ended May 31, 2009 and 2008 (in thousands, except percentages):

|                                    | Nine Months Ended May 31, |           | Change from |         |
|------------------------------------|---------------------------|-----------|-------------|---------|
|                                    | 2009                      | 2008      | Prior Year  |         |
|                                    |                           |           | Dollars     | Percent |
| Multi-purpose maintenance products | \$ 15,854                 | \$ 18,019 | \$ (2,165)  | (12)%   |
| Homecare and cleaning products     | 3,195                     | 3,698     | (503)       | (14)%   |
|                                    | \$ 19,049                 | \$ 21,717 | \$ (2,668)  | (12)%   |
| <b>% of consolidated net sales</b> | <b>9%</b>                 | <b>9%</b> |             |         |

In the Asia-Pacific segment, which includes Australia and Asia, sales decreased to \$19.0 million, down \$2.7 million, or 12%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the nine months ended May 31, 2009 translated at the exchange rates in effect for the corresponding period in the prior fiscal year would have produced sales of \$20.7 million in the Asia-Pacific segment. Thus, on a constant currency basis, sales would have decreased by \$1.0 million, or 5%, for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.

Sales in Asia decreased 10% for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year primarily due to decreased sales of multi-purpose maintenance products across most of the region, including China, Taiwan, Korea, India and Singapore. Sales in China decreased 11%, which represented 32% of the total decrease in Asia, while sales across the rest of the Asia region decreased 9%. Despite overall sales growth in the Asia region during the first quarter of fiscal year 2009, we have experienced a slowdown in several markets in this region as a result of overall economic uncertainty across the region, which we expect to negatively impact sales for the remainder of the current fiscal year.

Sales in Australia decreased 17% for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due to the unfavorable impact of foreign currency exchange rates. On a constant currency basis, sales would have increased by 5% for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year due to price increases across all product lines, promotional activities and new distribution across all trade channels.



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**Table of Contents*****Gross Profit***

Gross profit was \$104.4 million, or 48.7% of net sales, for the nine months ended May 31, 2009 compared to \$113.8 million, or 47.4% of net sales, in the corresponding period of the prior fiscal year. As a percentage of net sales, gross profit increased slightly as worldwide price increases implemented during the first quarter of fiscal year 2009 were partially offset by higher costs of products, the timing of advertising, promotional and other discounts, and the closeout of slow-moving inventory.

To combat the higher costs of products, we implemented worldwide price increases on certain products which added approximately 4.6 percentage points to our gross profit percentage for the nine months ended May 31, 2009.

The increase in costs of products, which had a negative net impact on gross profit percentage of 1.9 percentage points, was due primarily to the increase in costs for components and raw materials, including petroleum-based materials and aerosol cans, during the nine months ended May 31, 2009. The higher costs for petroleum-based materials and aerosol cans negatively impacted our gross profit percentage by 2.2 percentage points for the nine months ended May 31, 2009. Although the cost of oil declined during the second half of calendar year 2008, we did not begin to experience the full benefit from lower costs of petroleum-based materials until the third quarter of fiscal year 2009. In addition, we began to experience a significant increase in the cost of aerosol cans during the second quarter of fiscal year 2009 primarily due to the cost of tinplate used to manufacture such cans. Tinplate pricing is set annually and is independent of the movements in the cost of steel on the spot market. While the cost of steel on the spot market has experienced recent declines, the cost of aerosol cans has not benefited from this recent trend. Partially offsetting these cost increases were the cost benefits we realized related to product conversions and sourcing changes in the U.S. during last fiscal year's fourth quarter which positively impacted gross profit percentage by 0.3 percentage points during the nine months ended May 31, 2009. The cost benefits from sourcing changes and product conversions during the third quarter of the current fiscal year have more than offset the initial transition costs incurred during the first two quarters of the current fiscal year.

In general, shifts in product and customer 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 profit percentage from period to period. Examples of advertising, promotional and other discounts include coupon redemptions, consideration and allowances given to retailers for space and/or favorable display positions in their stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives. During the nine months ended May 31, 2009, advertising, promotional and other discounts increased compared to the corresponding period of the prior fiscal year, negatively impacting gross profit percentage by 0.4 percentage points. The increase in such discounts was due to the fact that a greater percentage of sales during the nine months ended May 31, 2009 was subject to promotional allowances due to the overall increase in promotional activity in response to general economic conditions.

Also negatively impacting our gross profit percentage was the closeout of slow-moving inventory, which had a negative impact on gross profit percentage of 0.2 percentage points.

Note that our gross profits 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. These costs totaled \$9.9 million and \$13.7 million for the nine months ended May 31, 2009 and 2008, respectively.

***Selling, General and Administrative Expenses***

SG&A expenses for the nine months ended May 31, 2009 decreased to \$57.4 million, or 26.8% of net sales, from \$63.0 million, or 26.2% of net sales, for the corresponding period of the prior fiscal year. The decrease in SG&A expenses was largely attributable to the impact of foreign currency translation and to lower freight costs. Changes in foreign currency exchange rates compared to the corresponding period of the prior fiscal year decreased SG&A expenses by \$6.2 million for the nine months ended May 31, 2009. Thus, on a constant currency basis, SG&A expenses for the nine months ended May 31, 2009 would have been \$63.6 million for an increase of \$0.6 million, or 1%, over the corresponding period of the prior fiscal year. Freight costs decreased \$2.6 million due to

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reduced fuel costs, improved shipping efficiencies and lower sales revenue. Partially offsetting these decreases were increases in employee-related costs, research and development costs and other miscellaneous expenses. Employee-related costs, which include salaries, profit sharing and other fringe benefits, increased \$2.1 million due to annual compensation increases and higher staffing levels primarily to support the growth of international operations. Research and development costs increased \$0.7 million due to the timing of new product development activity. Other miscellaneous expenses, including stock-based compensation, professional services costs and bad debt expense, increased by \$0.4 million.

We continued our research and development investment in support of our focus on innovation and renovation. Research and development costs for the nine months ended May 31, 2009 and 2008 were \$3.2 million and \$2.5 million, respectively. Our new-product development team, 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 our current and prospective outsource suppliers.

***Advertising and Sales Promotion Expenses***

Advertising and sales promotion expenses increased slightly to \$15.3 million, or 7.2% of net sales, for the nine months ended May 31, 2009, up from \$15.2 million, or 6.3% of net sales, for the corresponding period of the prior fiscal year. The increase was due to the timing of investment in advertising activities, partially offset by the favorable impact of changes in foreign currency exchange rates period over period. On a constant currency basis, advertising and sales promotion expenses for the nine months ended May 31, 2009 would have been \$17.0 million for an increase of \$1.8 million, or 12%, over the corresponding period of the prior fiscal year. Investment in global advertising and sales promotion expenses for fiscal year 2009 is expected to be in the range of 6.5% to 7.5% 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. For the nine months ended May 31, 2009, total promotional costs recorded as a reduction to sales were \$13.4 million compared to \$14.1 million for the corresponding period of the prior fiscal year. Therefore, our total investment in advertising and sales promotion activities totaled \$28.7 million for the nine months ended May 31, 2009 compared to \$29.3 million for the corresponding period of the prior fiscal year.

***Amortization of Definite-lived Intangible Asset Expense***

Amortization of our definite-lived intangible asset was \$346,000 and \$449,000 for the nine months ended May 31, 2009 and 2008, respectively. The amortization relates to the non-contractual customer relationships acquired in the 1001 acquisition completed by the Europe segment in fiscal year 2004. This intangible asset is recorded and amortized in pounds sterling on a straight-line basis over its estimated eight-year life and is converted to U.S. dollars for reporting purposes. Therefore, any fluctuations in amortization from period to period are the result of changes in foreign currency exchange rates.

***Impairment of Indefinite-lived Intangible Asset Expense***

During the second quarter of fiscal year 2009, we performed our annual impairment test of goodwill and indefinite-lived intangible assets in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets*. Based on the results of this test, we determined that our goodwill was not impaired since the fair value of each reporting unit exceeded its carrying value by more than 10% as of February 28, 2009.

We determined that each of the indefinite-lived intangible assets related to our homecare and cleaning products was not impaired as of February 28, 2009, with the exception of the indefinite-lived intangible asset related to our Carpet Fresh brand, which was impaired by \$2.8 million. This impairment was due to an increase in cost of goods and a decline in forecasted sales levels of the Carpet Fresh brand, both of which occurred during the quarter ended February 28, 2009. The decline in forecasted sales levels resulted from our strategic decision to redirect our research and development efforts towards our multi-purpose maintenance products, the loss of distribution with a significant U.S. mass retail customer and assumed lower future foreign currency exchange rates in the

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U.K. and Australia. While some of these factors also impacted the indefinite-lived intangible assets related to our other homecare and cleaning products, they did not result in impairment to any of such other indefinite-lived intangible assets for the second quarter of fiscal year 2009.

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

We performed a sensitivity analysis on our significant assumptions and estimates and determined that a negative change in our significant assumptions and estimates would have resulted in the following potential impairment charges to our indefinite-lived intangible assets related to the Carpet Fresh, X-14, 2000 Flushes and Spot Shot brands (the approximate impact of the change in each significant assumption and estimate assumes all other assumptions and estimates remain constant; in millions, except percentages):

|  | Potential Impairment Charges |        |              |
|--|------------------------------|--------|--------------|
|  | Carpet Fresh                 | X-14   | 2000 Flushes |
| 50 basis point decrease in royalty rate  | \$ 0.8                       | \$ 0.5 | \$ 0.9       |
| 10% decrease in forecasted sales revenue | \$ 0.4                       | \$ 0.1 | \$ 0.7       |

| Spot Shot                                | Potential Impairment Charges |     |
|--|------------------------------|-----|
|  |                              |     |
| 75 basis point decrease in royalty rate  | \$                           | 0.5 |
| 20% decrease in forecasted sales revenue | \$                           | 0.9 |

Larger decreases in the significant assumptions and estimates set forth above could result in further impairment of our indefinite-lived intangible assets related to the Carpet Fresh, X-14, 2000 Flushes and Spot Shot brands. In addition, negative changes in other assumptions and estimates, such as advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention, development of new and/or alternative distribution channels, tax rates and terminal growth values, could result in further impairment.

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

**Non-Operating Items**

The following table summarizes non-operating income and expenses for our consolidated operations for the nine months ended May 31, 2009 and 2008 (in thousands):

|                            | Nine Months Ended May 31, |           |            |
|----------------------------|---------------------------|-----------|------------|
|                            | 2009                      | 2008      | Change     |
| Interest expense, net      | \$ 1,518                  | \$ 1,229  | \$ 289     |
| Other income, net          | \$ 544                    | \$ 753    | \$ (209)   |
| Provision for income taxes | \$ 8,929                  | \$ 11,663 | \$ (2,734) |

**Interest Expense, Net**

Interest expense, net increased \$0.3 million for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year. Although interest expense decreased due to the lower principal balance on long-term borrowings resulting from the annual \$10.7 million principal payments made in October 2008 and October 2007, this decrease was more than offset by a larger decrease in interest income as a result of lower cash balances and interest rates during the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year.



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### ***Other Income, Net***

Other income, net decreased \$0.2 million for the nine months ended May 31, 2009 compared to the corresponding period of the prior fiscal year primarily due to foreign currency exchange losses in Europe.

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

The provision for income taxes was 32.4% of income before income taxes for the nine months ended May 31, 2009 compared to 33.7% for the corresponding period of the prior fiscal year. The decrease in the effective tax rate was primarily due to a California tax law enacted during the second quarter of fiscal year 2009. The change resulted in the revaluation of our deferred tax assets and liabilities as of the law's effective date. The impact was a tax benefit for the nine months ended May 31, 2009 of approximately \$0.5 million.

### ***Net Income***

Net income was \$18.7 million, or \$1.12 per common share on a fully diluted basis for the nine months ended May 31, 2009, compared to \$23.0 million, or \$1.36 per common share on a fully diluted basis for the nine months ended May 31, 2008. The change in foreign currency exchange rates period over period had an unfavorable impact of \$3.3 million on net income for the nine months ended May 31, 2009. Thus, on a constant currency basis, net income for the nine months ended May 31, 2009 would have been \$22.0 million.

## **Liquidity and Capital Resources**

### ***Overview***

The Company's financial condition and liquidity remain strong. Net cash provided by operations was \$22.2 million for the nine months ended May 31, 2009 compared to \$18.4 million for the nine months ended May 31, 2008. However, in light of the recent liquidity issues experienced in the global credit and capital markets, we believe we are well positioned to weather the uncertainty due to our strong balance sheet and efficient business model, along with our growing and diversified global revenues. We are managing all aspects of our business including, but not limited to, monitoring the financial health of our customers, suppliers and other third-party relationships, implementing margin enhancement strategies and developing new opportunities for growth.

Our principal sources of liquidity are our existing cash and cash equivalents, cash generated from operations and cash available from our \$10 million revolving credit facility, obtained in September 2008, which is currently undrawn. At May 31, 2009, we had a total of \$36.2 million in cash and cash equivalents. We believe that our existing cash and cash equivalents at May 31, 2009, the liquidity under our revolving credit facility and our anticipated cash flows from operations will be sufficient to meet the projected operating and capital requirements for our current business plans. We consider 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 our business.

Our outstanding indebtedness under our original \$75 million, 7.28% fixed-rate term loan was \$32.1 million as of May 31, 2009. Outstanding borrowings under our term loan must be repaid in annual principal payments of \$10.7 million, with the final payment due in October 2011.



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### **Cash Flows**

#### *Operating Activities*

Net cash provided by operating activities for the nine months ended May 31, 2009 was \$22.2 million. This amount consisted of \$18.7 million from net income with an additional \$10.3 million of adjustments for non-cash items, including depreciation and amortization, impairment of indefinite-lived intangible asset, net gains on sales and disposals of property and equipment, deferred income tax expense, excess tax benefits from exercises of stock options and conversions of restricted stock units to common shares, equity losses from VML, stock-based compensation and provision for bad debts, partially offset by \$6.7 million related to changes in operating assets and liabilities.

#### *Investing Activities*

Net cash used in investing activities for the nine months ended May 31, 2009 was \$2.5 million primarily due to capital expenditures during the period. For fiscal year 2009, we expect to spend approximately \$4.4 million for new capital assets, largely driven by purchases of machinery and equipment to enhance manufacturing efficiencies, as well as purchases of computer equipment, software and vehicles.

#### *Financing Activities*

Net cash used in financing activities was \$22.5 million for the nine months ended May 31, 2009, which included the effects of the following transactions:

In October 2008, we paid our annual principal payment of \$10.7 million on our term loan;

During the nine months ended May 31, 2009, we paid dividends of \$12.4 million; and

During the nine months ended May 31, 2009, we received cash proceeds of \$0.6 million from the issuance of common stock upon the exercises of stock options.

### **Working Capital**

At May 31, 2009, working capital decreased to \$63.2 million, down \$1.7 million from \$64.9 million at August 31, 2008. The current ratio was 2.4 and 2.2 at May 31, 2009 and August 31, 2008, respectively.

Current assets decreased by \$12.3 million to \$107.2 million at May 31, 2009, down from \$119.5 million at August 31, 2008 primarily due to the \$5.8 million decrease in cash and cash equivalents and the \$5.3 million decrease in accounts receivable related to the timing of sales.

Current liabilities decreased by \$10.6 million to \$44.0 million at May 31, 2009, down from \$54.6 million at August 31, 2008 primarily due to the \$10.6 million decrease in accounts payable and accrued liabilities due to the timing of payments. In addition, accrued payroll and related expenses were down \$1.3 million primarily due to payment of the fiscal year 2008 bonuses in October 2008 and a lower profit sharing accrual. At May 31, 2009, the accrued profit sharing balance included five months of accrual compared to eight months of accrual at August 31, 2008, as the Company's profit sharing plan is based on a calendar year. Partially offsetting these decreases was an increase in income taxes payable of \$1.3 million due to the timing of income tax accruals and related payments.

### **Commercial Commitments**

We have relationships with various suppliers (contract manufacturers) who manufacture our products. Although we do not have any definitive minimum purchase obligations included in the contract terms with the contract manufacturers, supply needs are communicated and we are committed to purchase the products produced based on orders and short-term projections provided to the contract manufacturers, ranging from two to five months. We are also obligated to purchase obsolete or slow-moving inventory.



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In addition to the commitments to purchase products from contract manufacturers described above, we may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of May 31, 2009, such commitments totaled approximately \$2.0 million.

### ***Dividends***

On June 23, 2009, the Company's Board of Directors declared a cash dividend of \$0.25 per share payable on July 31, 2009 to shareholders of record on July 17, 2009. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

### **Income Taxes**

We adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – An interpretation of FASB Statement No. 109* (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. As of May 31, 2009 and August 31, 2008, the total amount of unrecognized tax benefits totaled \$1.7 million, of which \$1.0 million and \$1.1 million would affect the effective tax rate if recognized at May 31, 2009 and August 31, 2008, respectively. As of May 31, 2009 and August 31, 2008, the total balance of accrued interest and penalties related to unrecognized tax benefits was \$0.3 million and \$0.4 million, respectively. The gross liability for income taxes related to unrecognized tax benefits is included in other long-term liabilities in our condensed consolidated balance sheets. There were no material interest or penalties included in income tax expense for the three- and nine-month periods ended May 31, 2009 and 2008.

We are subject to taxation in the U.S. and in various state and foreign jurisdictions. We currently do not have any years under examination by the U.S. Internal Revenue Service and are not subject to examination for years prior to fiscal year 2006. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2004 are no longer subject to examination. We are currently under audit in various state and local jurisdictions for fiscal years 2004 through 2007. We have estimated that up to \$0.2 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

During the nine months ended May 31, 2009, we recorded liabilities related to unrecognized tax benefits of \$0.2 million in the current fiscal year, offset by recognized tax benefits of \$0.2 million due to expiring statutes.

### **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.

Our critical accounting policies are discussed in more detail in Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 2 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2008.

**Table of Contents*****Recently Issued Accounting Pronouncements***

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data). FSP EITF 03-6-1 is effective for our fiscal year beginning on September 1, 2009, and interim periods within that year. We are currently evaluating the impact, if any, the adoption of FSP EITF 03-6-1 will have on our earnings per common share.

Effective September 1, 2008, we adopted the required portions of SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which had no impact on our consolidated financial statements. SFAS No. 157 currently applies to all financial assets and liabilities and those nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The effective date of the provisions of SFAS No. 157 for nonfinancial assets and liabilities, except for items recognized at fair value on a recurring basis, was delayed by FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, and is effective for our fiscal year beginning on September 1, 2009. We are currently evaluating the impact of the delayed portions of SFAS No. 157 on our consolidated financial position and results of operations. The adoption of the nondelayed portions of SFAS No. 157 is more fully described in Note 4 included in Part I Item 1 of this report.

In May 2009, the Financial Accounting Standards Board issued SFAS No. 165, *Subsequent Events* ( SFAS No. 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 is effective for our fiscal year beginning on September 1, 2009. The adoption of SFAS No. 165 is not expected to have a material impact on our consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ), which amends the consolidation guidance applicable to variable interest entities. Upon adoption of SFAS No. 167, we will have reconsidered our previous FIN 46(R) conclusions regarding our investment in VML Company, L.L.C. ( VML ). SFAS No. 167 is effective for our fiscal year beginning on September 1, 2010. Early adoption is prohibited. We are currently evaluating the impact, if any, SFAS No. 167 will have on our consolidated financial position and results of operations.

**Related Parties**

VML, a Delaware company, was formed in April 2001, at which time we acquired a 30% membership interest. VML makes profit distributions to the Company and the 70% owner on a discretionary basis in proportion to each party's respective interest. VML currently serves as one of our contract manufacturers for certain homecare and cleaning products. During fiscal year 2008, VML acquired a significant new customer, which resulted in manufacturing disruptions. In addition, VML filed for Chapter 11 bankruptcy on April 24, 2009. As a result of these developments, we transitioned our sourcing to alternative suppliers to significantly reduce our reliance on VML as a manufacturer.

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

Under FIN 46(R), VML qualifies as a variable interest entity, and it has been determined that we are not the primary beneficiary. Our investment in VML is accounted for using the equity method of accounting, and our equity in earnings or losses of VML is recorded as a component of cost of products sold, as VML acts primarily as a contract manufacturer to the Company. We recorded equity losses related to our investment in VML of \$0 and \$229,000 for the three months ended May 31, 2009 and 2008, respectively, and \$435,000 and \$248,000 for the nine months ended May 31, 2009 and 2008, respectively. Our investment in VML was written off in full as of February 28, 2009.

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Cost of products sold which were purchased from VML, net of rebates and equity earnings or losses, was approximately \$3.8 million and \$5.9 million for the three months ended May 31, 2009 and 2008, respectively, and \$11.6 million and \$17.1 million for the nine months ended May 31, 2009 and 2008, respectively. We had product payables to VML of \$0.2 million and \$0.5 million at May 31, 2009 and August 31, 2008, respectively. Additionally, we receive rental income from VML, which is recorded as a component of other income, net in our condensed consolidated statements of operations.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Refer to Part II Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended August 31, 2008.

### **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 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 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 May 31, 2009, 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.

**Table of Contents****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, or 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. The amended complaint seeks to remedy such allegedly wrongful conduct: (i) by requiring the Company to identify all consumers who have purchased the ATBCs and to return money as may be ordered by the court; and (ii) by the granting of other equitable relief, interest, attorneys' fees and costs. 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 its pending 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 Company's consolidated financial position, results of operations or cash flows. There is not sufficient information to estimate the Company's exposure at this time.

Since 2004, the Company has been named as a defendant in 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 Benzene Lawsuits). 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. The Company believes its products have always been formulated without containing benzene and the facts developed in litigation to date support this position. The plaintiffs in the Benzene Lawsuits typically seek damages in unspecified amounts for injuries or death attributable to a form of cancer linked to exposure to benzene. The Company is unable to quantify the total amount of damages asserted by the plaintiffs in the Benzene Lawsuits. 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 consolidated financial position or results of operations. The Company is vigorously defending these lawsuits. 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 increases, it is reasonably possible that such costs of defense may materially affect the Company's consolidated financial position, results of operations and cash flows in future periods.

During the quarter ended May 31, 2009, 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 fiscal year ended August 31, 2008, filed with the SEC on October 23, 2008.

**Item 1A. Risk Factors**

Other than the addition of the risk factor below, there have been no material changes in our risk factors from those disclosed in Part I Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended August 31, 2008, filed with the SEC on October 23, 2008.

*The recent changes in general economic conditions, and the impact on consumer confidence and consumer spending, could continue to adversely impact our results of operations.*

The Company's performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Recently, consumer confidence and consumer spending have deteriorated significantly, and could remain depressed for an extended period. Some of the factors influencing this deterioration include fluctuating interest rates and credit

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availability, fluctuating fuel and other energy costs, fluctuating commodity prices, higher levels of unemployment, higher consumer debt levels, reductions in net worth based on market declines, home foreclosures and reductions in home values, and general uncertainty regarding the overall future economic environment. Consumer purchases of discretionary items, including our multi-purpose maintenance products and homecare and cleaning products, generally decline during periods where disposable income is adversely affected or there is economic uncertainty, and this could adversely impact our consolidated results of operations.

**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, 2008, 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 multi-purpose maintenance products and homecare and cleaning products 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 segment, direct European countries and Eastern and Northern 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 Part I Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2008, and in the Company's Quarterly Reports on Form 10-Q, which may be updated from time to time.

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 or readers 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.

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**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3(a)               | Certificate of Incorporation, incorporated by reference from the Registrant's Form 10-K filed October 25, 2007, Exhibit 3(a) thereto. |
| 3(b)               | Bylaws, incorporated by reference from the Registrant's Form 10-Q filed January 9, 2009, Exhibit 3(b) 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.            |



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**SIGNATURES**

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

WD-40 COMPANY  
Registrant

Date: July 9, 2009

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

By: /s/ JAY W. REMBOLT  
Jay W. Rembolt  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)