

WD 40 CO  
Form 10-K  
October 22, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended August 31, 2012

or

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

Commission File Number: 000-06936

**WD-40 COMPANY**

(Exact name of registrant as specified in its charter)

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

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

Title of each class Common Stock, \$0.001 par value	Name of each exchange on which registered The NASDAQ Stock Market, LLC
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Securities registered pursuant to Section 12(g) of the Act:

Title of each class

## Edgar Filing: WD 40 CO - Form 10-K

None

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

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

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

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

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

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

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

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

The aggregate market value (closing price) of the voting stock held by non-affiliates of the registrant as of February 29, 2012 was approximately \$640,924,854.

As of October 15, 2012, there were 15,715,835 shares of the registrant's common stock outstanding.

### Documents Incorporated by Reference:

The Proxy Statement for the annual meeting of stockholders on December 11, 2012 is incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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**For the**  
**Fiscal Year Ended August 31, 2012**  
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**PART I**

This Annual Report on Form 10-K contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are 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. These statements include, but are not limited to, references to the near-term growth expectations for multi-purpose maintenance products and homecare and cleaning products, the impact of changes in product distribution, competition for shelf space, the impact of competition on product pricing, the level of promotional and advertising spending, plans for and success of product innovation, the impact of new product introductions on the growth of sales, the impact of customer mix and costs of raw materials, components and finished goods costs on gross margins, the impact of promotional programs on sales, the rate of sales growth in the Asia-Pacific segment, direct European countries and Eastern and Northern Europe, foreign currency exchange rates and fluctuations in those rates, the impact of changes in inventory management, the effect of future income tax provisions and audit outcomes on tax rates, and the effects of, and changes in, worldwide economic conditions and legal proceedings and other risk factors identified in Item 1A of this report. The Company undertakes no obligation to revise or update any forward-looking statements.

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

**Item 1. Business**

***Overview***

WD-40 Company is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of doer and on-the-job users by leveraging and building the brand fortress of the Company. The Company was founded in 1953 and its headquarters are located in San Diego, California. For more than four decades, the Company sold only one product, WD-40®, a multi-purpose maintenance product which acts as a lubricant, rust preventative, penetrant, cleaner and moisture displacer. Over the years, the Company has further developed the WD-40 brand and acquired several brands worldwide, many of which have been homecare and cleaning product brands, in order to build a fortress of brands that deliver a unique high value to end users. In addition, some of these brand acquisitions have provided the Company with access to existing distribution channels for other of its existing brands and have also provided the Company with economies of scale in areas such as sales, manufacturing and administration. The Company's acquisitions include the following:

3-IN-ONE® brand of general purpose and specialty maintenance products in fiscal year 1996;

Lava® brand of heavy-duty hand cleaners in fiscal year 1999;

2000 Flushes® automatic toilet bowl cleaners, X-14® automatic toilet bowl cleaners and Carpet Fresh® rug and room deodorizers, all of which were associated with the Global Household Brands acquisition, and Solvol® brand of heavy-duty hand cleaners in Australia in fiscal year 2001;

Spot Shot® brand, whose primary product was a carpet stain remover; in fiscal year 2002; and

1001® line of carpet and household cleaners in the United Kingdom ( U.K. ) in fiscal year 2004.

The Company is focused on and committed to innovation and renovation of its products. The Company sees innovation and renovation as important factors to the long-term growth of its brands, and it intends to continue to work on future product, packaging and promotional innovations and renovations. The Company is also focused



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on expanding its current brands in existing markets with new product development. The Company's product development team, Team Tomorrow, supports new product development and current product improvement for the Company's brands. Since its inception in fiscal year 2003, Team Tomorrow has made an innovation impact on most of the Company's brands. Key innovations for the Company's products include, but are not limited to, WD-40 Smart Straw<sup>®</sup>, WD-40 Trigger Pro<sup>®</sup>, 3-IN-ONE Professional Garage Door Lube, Spot Shot Pet Clean which is a non-aerosol Spot Shot trigger product, Blue Works<sup>®</sup> product line, and a mildew stain remover under the X-14 brand. In addition, the Company launched a new WD-40 Specialist<sup>®</sup> product line, which consists of certain specialty maintenance products aimed at an expanded group of end users that currently uses WD-40 multi-use product, during fiscal year 2011. The Company also formed WD-40 Bike Company LLC, a new business unit focused on the development of a comprehensive line of bicycle maintenance products for cyclists and mechanics, during the fourth quarter of fiscal year 2012. The Company will start to launch certain products in the WD-40 Bike product line in the United States ( U.S. ) during the first quarter of fiscal year 2013.

The Company's core strategic initiatives and the areas where it will continue to focus its time, talent and resources in future periods include: (i) maximizing the WD-40 brand through geographic expansion and market penetration; (ii) becoming the global leader in the Company's product categories within our prioritized platforms; (iii) developing strategic business relationships; (iv) pursuing global innovation efforts; and (v) attracting, developing and retaining people.

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.

### ***Financial Information about Operating Segments***

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

The Company's management reviews product performance on the basis of sales, which comes from its two product lines multi-purpose maintenance products and homecare and cleaning products. The Company sells its products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. The financial information required by this item is included in Note 16 Business Segments and Foreign Operations of the Company's consolidated financial statements, included in Item 15 of this report, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this report.

### ***Products***

#### ***Multi-Purpose Maintenance Products***

The WD-40 brand is a market leader among multi-purpose maintenance products and is sold as an aerosol spray, a non-aerosol trigger spray and in liquid form through mass retail stores, hardware stores, warehouse club stores, automotive parts outlets and industrial distributors and suppliers. WD-40 products are sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. WD-40 products have a wide variety of consumer uses in, for example, household, marine, automotive, construction, repair, sporting goods and gardening applications, in addition to numerous industrial applications.

The 3-IN-ONE brand consists of multi-purpose drip oil and spray lubricant products, as well as other specialty maintenance products. The drip oil is an entry-level lubricant with unique spout options that allow precise applications for small mechanisms and assemblies, tool maintenance and threads on screws and bolts. 3-IN-ONE

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Oil is the market share leader among drip oils for household consumers. It also has wide industrial applications in such areas as locksmithing, HVAC, marine, farming, construction and jewelry manufacturing. In addition to the drip oil line of products, the 3-IN-ONE brand also includes a professional line of products known as 3-IN-ONE Professional, which is a line of high quality, great value multi-purpose maintenance products. The high quality of the 3-IN-ONE brand and its established distribution network have enabled these products to gain international acceptance. 3-IN-ONE products are sold primarily in the U.S., Europe, Canada, Latin America, Australia and Asia.

The Blue Works brand consists of a line of industrial grade, specialty maintenance products that include lubricants, penetrants, degreasers and cleaners designed specifically for the needs of industrial users. Blue Works products were launched in the U.S. during the second quarter of fiscal year 2010 and in selected markets in Europe in early fiscal year 2011 and are currently sold through the industrial channel. This industrial channel represents a smaller market and experiences slower growth with different sales cycles than do other distribution channels where the Company currently sells its products. Since there is end user overlap between users of Blue Works products and users of the WD-40 Specialist products, it is possible that over time end users will choose WD-40 Specialist over Blue Works.

WD-40 Specialist consists of a line of best-in-class performing specialty problem solving products that include penetrants, water resistant silicone sprays, corrosion inhibitors and rust removers that are aimed at an expanded group of end users that currently uses WD-40 multi-use product. The Company launched the first three products in this line in the U.S. during September 2011 and certain products in the line in Canada and select markets in Europe in January 2012 using the same established distribution channels where the Company currently sells its existing products.

WD-40 Bike Company LLC is a new business unit that the Company has recently formed as part of its focus on global innovation. The WD-40 Bike product line consists of a comprehensive line of bicycle maintenance products that include wet and dry chain lubricants, heavy-duty degreasers, foaming bike wash and frame protectants that are designed specifically for the avid cyclist, bike enthusiasts and mechanics. The Company will start to launch certain products in this line during the first quarter of fiscal year 2013 through a network of bike shops and sport retailers across the United States.

*Homecare and Cleaning Products*

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

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

The Carpet Fresh brand is a line of room and rug deodorizers sold as powder, aerosol foam and trigger spray products. Carpet Fresh is sold primarily through grocery and mass retail channels in the U.S., U.K. and Australia. In the U.K., Carpet Fresh is sold under the 1001 brand name. In Australia, Carpet Fresh is sold under the No Vac brand name.

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

The 1001 brand includes carpet and household cleaners and rug and room deodorizers which are sold primarily through mass retail, grocery and home center stores in the U.K. The brand was acquired to introduce the Company's other homecare and cleaning product formulations under the 1001 brand in order to expand the Company's homecare and cleaning products business into the U.K. market.

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

Financial information about operating segments and product lines is included in Note 16 Business Segments and Foreign Operations of the consolidated financial statements, included in Item 15 of this report.

### ***Sales and Marketing***

The Company's sales do not reflect any significant degree of seasonality. However, it is common for the Company's sales to fluctuate from period to period or year to year due to various factors, including but not limited to new or lost distribution, the number of product offerings carried by a customer and the level of promotional activities and programs being run at customer locations. New or lost distribution occurs when the Company gains or loses customers, it gains or loses store count for a customer or its products are added to new locations within a store or removed from existing locations. From time to time, as part of new product offering launches, the Company may gain access to entirely new distribution channels. The number of product offerings refers to the number of brands and/or the number of products within each of those brands that the Company's customers offer for sale to end user customers. The level of promotional activities and programs relates to the number of events or volumes of purchases by customers in support of off-shelf or promotional display activities. Changes in any one of these three factors or a combination of them can cause the Company's sales levels to increase or decrease from period to period. It is also common and/or possible that the Company could lose distribution or product offerings and experience a decrease in promotional activities and programs in one period and subsequently regain this business in a future period. The Company is accustomed to such fluctuations and manages this as part of its normal business activities.

### ***Sources and Availability of Components and Raw Materials***

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

### ***Research and Development***

The Company recognizes the importance of innovation and renovation to its long-term success and is focused on and committed to research and new product development activities. The Company's product development team, Team Tomorrow, engages in consumer research, product development, current product improvement and testing activities, and also leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers. In addition, Team Tomorrow engages in activities and product development efforts which are necessary to ensure that the Company meets all regulatory requirements for the formulation of its products. The Company incurred research and development expenses of \$5.1 million, \$5.5 million and \$5.3 million in fiscal years 2012, 2011 and 2010, respectively. None of this research and development activity was customer-sponsored.

### ***Manufacturing***

The Company outsources directly or through its marketing distributors the manufacturing of its finished products to various third-party contract manufacturers. The Company or its marketing distributors use contract manufacturers in the United States, Canada, Mexico, Brazil, Argentina, Columbia, the U.K., Australia, Japan, China, South Korea and India. Although the Company does not typically have definitive minimum purchase



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obligations included in the contract terms with its contract manufacturers, when such obligations have been included, they have been immaterial to date. Supply needs are communicated by the Company to its contract manufacturers, and the Company is committed to purchase the products manufactured based on orders and short-term projections, ranging from two to five months, provided to the contract manufacturers. The Company also formulates and manufactures concentrate used in its WD-40 products at its own facilities and at third-party contract manufacturers.

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers from time to time to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives.

### ***Order Backlog***

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

### ***Competition***

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

### ***Trademarks and Patents***

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

### ***Employees***

At August 31, 2012, the Company employed 347 people worldwide: 152 by the United States parent corporation (including 5 of whom are based in the Malaysia regional office); 10 by the Canada subsidiary; 127 by the U.K. subsidiary (including 57 in the U.K., 23 in Germany, 22 in France, 16 in Spain and 9 in Italy); 16 by the Australia subsidiary; 40 by the China subsidiary; and 2 by WD-40 Manufacturing Company, the Company's manufacturing subsidiary.

### ***Financial Information about Foreign and Domestic Operations***

For detailed information about the Company's foreign and domestic operations, including net sales and total assets by reportable segment and long-lived assets by geography, refer to Note 16 Business Segments and Foreign Operations of the consolidated financial statements, included in Item 15 of this report.

### ***Access to SEC Filings***

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available through the Investors section of the Company's website at

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www.wd40company.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Securities and Exchange Commission (SEC). Information contained on the Company's website is not included as a part of, or incorporated by reference into, this report.

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

### **Item 1A. Risk Factors**

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

*The Company's financial results could suffer if the Company is unable to implement and successfully manage its core strategic initiatives or if the Company's core strategic initiatives do not achieve the intended results.*

There is no assurance that the Company will be able to implement and successfully manage its core strategic initiatives, including its five major strategic initiatives, or that the core strategic initiatives will achieve the intended results, which include sales volume growth. The Company's five major strategic initiatives include: (i) maximizing the WD-40 brand through geographic expansion and market penetration; (ii) becoming the global leader in the Company's product categories within its prioritized platforms; (iii) developing strategic business relationships; (iv) pursuing global innovation efforts; and (v) attracting, developing and retaining people. If the Company is unable to implement and successfully manage its core strategic initiatives in accordance with its business plans, the Company's business and financial results could be adversely affected. Moreover, the Company cannot be certain that implementation of its core strategic initiatives will necessarily advance its business or financial results as intended.

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

Increases in the cost of finished goods, components and raw materials and increases in the cost of transportation and other necessary supplies or services may harm the Company's financial condition and results of operations. Petroleum-based products and aerosol cans, which constitute a significant portion of the costs for many of the Company's products, have experienced significant price volatility in the past, and may continue to do so in the future. Fluctuations in oil and diesel fuel prices have also impacted the Company's cost of transporting its products. As component and raw material costs are the principal contributors to the cost of goods sold for all of the Company's products, any significant fluctuation in the costs of components and raw materials could have a material impact on the gross margins realized on the Company's products. Specifically, the costs of petroleum-based materials, which are included in many of the Company's products, are exposed to fluctuations resulting from the increase in the cost of petroleum and there has been significant volatility in such costs in recent years. In the event there is significant volatility in the Company's cost of goods or increases in raw material and/or component costs or the costs of transportation and other necessary supplies or services, the Company may not be able to maintain its gross margins if it chooses not to raise its product sales prices. Should the Company choose to increase product sales prices to offset cost increases, such increases may adversely affect demand and unit sales. Sustained increases in the cost of raw materials, components, transportation and other necessary supplies or services, or significant volatility in such costs, could have a material adverse effect on the Company's financial condition and results of operations.

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***Reliance on a limited base of third-party contract manufacturers, logistics providers and suppliers of raw materials and components may result in disruption to the Company's business and this could adversely affect the Company's financial condition and results of operations.***

The Company relies on a limited number of third-party contract manufacturers, logistics providers and suppliers, including single or sole source suppliers for certain of its raw materials, packaging, product components and other necessary supplies. The Company does not have direct control over the management or business of these third parties, except indirectly through terms negotiated in service or supply contracts. Should the terms of doing business with the Company's primary third-party contract manufacturers, suppliers and/or logistics providers change or should the Company have a disagreement with or be unable to maintain relationships with such third parties or should such third parties experience financial difficulties, the Company's business may be disrupted. In early fiscal year 2012, the Company started a project to redesign its supply chain architecture in North America. This project includes the consolidation of the Company's third-party contract manufacturers and a restructuring of the Company's distribution center network. Once fully integrated, the Company expects this redesign to result in overall cost savings within the supply chain network and improved service to its customers. Although this project has progressed well to date, the Company has incurred certain transition costs, primarily related to freight and warehousing costs, and it is still in the process of completing the implementation and transition to this new supply chain architecture. If the Company experiences difficulties with the final stages of implementing this project or if it has difficulties in managing such changes in future periods, the Company's business may be adversely affected. Disruptions in the Company's supply chain and related contract relationships could have an adverse effect on the Company's business, financial condition and results of operations. In addition, if the Company is unable to contract with third-party manufacturers or suppliers for the quantity and quality levels needed for its business, the Company could experience disruptions in production and its financial results could be adversely affected.

***Global economic conditions may negatively impact the Company's financial condition and results of operations.***

A general weakening or decline in the global economy or a reduction in business or consumer spending or confidence could delay or significantly decrease purchases of the Company's products by its customers, including mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers. Consumer purchases of discretionary items, which could include the Company's multi-purpose maintenance products and homecare and cleaning products, may decline during periods where disposable income is reduced or there is economic uncertainty, and this may negatively impact the Company's financial condition and results of operations. In addition, during unfavorable or uncertain economic times, consumers may increase purchases of lower-priced or non-branded products and the Company's competitors may increase their level of promotional activities to maintain sales volumes, both of which may negatively impact the Company's financial condition and results of operations.

The Company's sales and operating results may be affected by uncertain or changing economic and market conditions, including inflation, deflation, prolonged weak consumer demand or other changes which may affect the principal markets in which the Company conducts its business. If economic or market conditions in the United States or other key global markets deteriorate, the Company may experience material adverse effects on its business, financial condition and results of operations. The global economy experienced a recession beginning in calendar year 2008 and the pace of recovery from that recession has been slow. In recent years, the banking system and financial markets have experienced disruptions, including among other things, bank failures and consolidations, diminished liquidity and credit availability and rating downgrades. In addition, the current political and economic environment has resulted in continued economic unpredictability, particularly in Europe where there are concerns regarding the increased sovereign debt levels in several countries and the inability of some of those countries to meet future financial obligations, and the associated overall volatility of the Euro currency. Although these factors are outside of the Company's control, they directly affect its business. The slow pace of economic recovery or any new economic downturn or recession could cause the Company's customers to delay or significantly decrease their purchases, which could reduce the Company's future sales and negatively impact its results of operations and cash flows.

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Adverse economic and market conditions could also harm the Company's business by negatively affecting the parties with whom it does business, including its customers, retailers, distributors and wholesalers, and third-party contract manufacturers and suppliers. These conditions could impair the ability of the Company's customers to pay for products they have purchased from the Company. As a result, allowances for doubtful accounts and write-offs of accounts receivable from the Company's customers may increase. In addition, the Company's third-party contract manufacturers and its suppliers may experience financial difficulties that could negatively affect their operations and their ability to supply the Company with finished goods and the raw materials, packaging, and components required for the Company's products.

***The Company faces significant competition in its markets which could lead to reduced profitability.***

The Company faces significant competition from other consumer products companies, both in the U.S. and in other global markets. Many of the Company's products, particularly its homecare and cleaning products, compete with other widely advertised brands within each product category and with private label brands and generic non-branded products of the Company's customers in certain categories, which are typically sold at lower prices. The Company also encounters competition from similar and alternative products, many of which are produced and marketed by major national or multinational companies. In addition, from time to time the Company discovers products in the marketplace that are counterfeit reproductions of its products. The availability of counterfeits of the Company's products, particularly in China, could adversely impact the Company's sales and potentially damage the value and reputation of its brands.

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

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

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

***Global operations outside the U.S. expose the Company to uncertain conditions, foreign currency exchange rate risk and other risks in international markets.***

The Company's sales outside of the U.S. were approximately 58% of consolidated net sales in fiscal year 2012 and one of its core strategic initiatives includes becoming a global leader in its product categories. As a result, the Company currently faces, and will continue to face, substantial risks associated with having increased global operations outside the U.S., including:

economic or political instability in the Company's international markets, including Latin America, the Middle East, parts of Asia, Russia, Eastern Europe and the Eurozone countries;

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

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challenges associated with the conduct of business in foreign jurisdictions;

dispersed employee base and compliance with employment regulations and other labor issues, including unionization and minimum wages, in countries outside the U.S.; and

the imposition of tariffs or trade restrictions and costs, burdens and restrictions associated with other governmental actions.

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

The Company is also exposed to foreign currency exchange rate risk with respect to its sales, expenses, profits, assets and liabilities denominated in currencies other than the U.S. dollar. Although the Company uses instruments to hedge certain foreign currency risks, primarily those associated with its U.K. subsidiary, it is not fully protected against foreign currency fluctuations and, therefore, the Company's reported earnings may be affected by changes in foreign currency exchange rates. Moreover, any favorable impacts to profit margins or financial results from fluctuations in foreign currency exchange rates are likely to be unsustainable over time. Also, the current and ongoing European financial restructuring efforts may cause the value of the European currencies, particularly the Euro, to further deteriorate, thus reducing the purchasing power of certain European customers, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, the Company's global operations outside the U.S. are subject to risks relating to appropriate compliance with legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations, potentially higher incidence of fraud or corruption, credit risk of local customers and distributors and potentially adverse tax consequences. Also, as the Company further develops and grows its business operations outside the U.S., the Company may be exposed to additional complexities and risks, particularly in emerging markets such as China. In many foreign countries, particularly in those with developing economies, it may be a local custom for a company which operates in such countries to engage in business practices that are prohibited by the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act or other applicable laws and regulations. Although the Company has adopted policies and contract terms to mandate compliance with these laws, there can be no assurance that all of its employees, contractors and agents will comply with the Company's requirements. Violations of these laws could be costly and disrupt the Company's business, which could have a material adverse effect on its business, financial condition and results of operations.

***Sales volume growth may be difficult to achieve.***

The Company's ability to achieve sales volume growth will depend on its ability to (i) execute its core strategic initiatives, which include maximizing the WD-40 brand through geographic expansion and market penetration, becoming the global leader in the Company's product categories within its prioritized platforms, developing strategic business relationships, pursuing global innovation efforts and attracting, developing and retaining people, (ii) drive growth within its existing markets through innovation, renovation and enhanced merchandising and marketing of its established brands, (iii) introduce its products to new users and (iv) capture market share from its competitors. It is more difficult for the Company to achieve sales volume growth in mature markets where the Company's products are widely used as compared to in developing markets where the Company's products have been newly introduced or are not well known by consumers. In order to protect the Company's existing market share or capture additional market share from its competitors, the Company may need to increase its expenditures related to promotions and advertising or introduce and establish new products. In past periods, the Company has also increased sales prices on certain of its products in response to increased costs for components and raw materials. Sales price increases may slow sales volume growth or create declines in volume in the short term as customers adjust to sales price increases. In addition, a change in the strategies of the

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Company's existing customers, including shelf simplification, the discontinuation of certain product offerings or the shift in shelf space to competitors' products could reduce the Company's sales and potentially offset sales volume increases achieved as a result of other sales growth initiatives. If the Company is unable to increase market share in its existing product lines by developing product improvements, investing adequately in its existing brands, building usage among new customers, developing, acquiring or successfully launching new products or product line extensions, or successfully penetrating new and developing markets globally, the Company may not achieve its sales volume growth objectives.

***Government regulations and environmental laws and regulations could result in material costs or otherwise adversely affect the Company's financial condition and results of operations.***

The manufacturing, chemical composition, packaging, storage, distribution and labeling of the Company's products and the manner in which the Company's business operations are conducted must comply with extensive federal, state and foreign laws and regulations, such as the California Air Resources Board (CARB) regulations and the California Transparency in Supply Chains Act as well as many others in the United States. In addition, the Company's international operations are subject to regulations in each of the foreign jurisdictions in which it manufactures, distributes and sells its products. If the Company is not successful in complying with the requirements of all such regulations or changes to existing regulations, it could be fined or other actions could be taken against the Company by the governing body and this could adversely affect the Company's financial condition and results of operations. It is also possible that governments will increase regulation of the transportation, storage or use of certain chemicals, to enhance homeland security or protect the environment and such regulation could negatively impact the Company's ability to obtain raw materials, components and/or finished goods or could result in increased costs. In the event that such regulations result in increased product costs, the Company may not be in a position to raise selling prices, and therefore an increase in costs could have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

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

The Company sells its products through a network of domestic and international mass retail and consumer retailers as well as industrial distributors and suppliers. The retail industry has historically been the subject of consolidation due to economic events, and as a result, the development of large chain stores has taken place. Today, the retail channel in the U.S. is comprised of several of these large chain stores that capture the bulk of the market share. Since many of the Company's customers have been part of the consolidation in the retail industry, these limited customers account for a large percentage of the Company's net sales. The Company expects that a significant portion of its revenues will continue to be derived from this limited number of customers. As a result, changes in the strategies of the Company's largest customers, including shelf simplification, a reduction in the number of brands they carry or a shift in shelf space to private label or competitors' products, may harm the Company's sales. The loss of, or reduction in, orders from any of the Company's most significant customers could have a material adverse effect on the Company's brand values, business, financial condition and results of operations. Large customers may seek price reductions, added support or promotional concessions. If the Company agrees to such customer demands and/or requests, it could negatively impact the Company's ability to maintain existing profit margins.

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

***If the success and reputation of one or more of the Company's leading brands erodes, its business, financial condition and results of operations could be negatively impacted.***

The financial success of the Company is directly dependent on the success and reputation of its brands, particularly its WD-40 brand. The success and reputation of the Company's brands can suffer if marketing plans or product development and improvement initiatives do not have the desired impact on the brands' image or do not attract customers as intended. The Company's brands can also be adversely impacted due to the activities and pressures placed on them by the Company's competitors. Further, the Company's business, financial condition and results of operations could be negatively impacted if one of its leading brands suffers damage to its reputation due to real or perceived quality or safety issues. Quality issues, which can lead to large scale recalls of the Company's products, can be due to items such as product contamination, packaging errors and incorrect ingredients in the Company's product. Although the Company makes every effort to prevent brand erosion and preserve its reputation and the reputation of its brands, there can be no assurance that such efforts will be successful.

***The Company may not successfully develop, introduce and/or establish new products and line extensions.***

The Company's future performance and growth depend, in part, on its ability to successfully develop, introduce and/or establish new products as both brand extensions and/or line extensions. The Company cannot be certain that it will successfully achieve those goals. The Company competes in several product categories where there are frequent introductions of new products and line extensions and such product introductions often require significant investment and support. The ability of the Company to understand consumer preferences is key to maintaining and improving the competitiveness of its product offerings. The development and introduction of new products, as well as the renovation of current products and product lines, require substantial and effective

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research, development and marketing expenditures, which the Company may be unable to recoup if the new or renovated products do not gain widespread market acceptance. There are inherent risks associated with new product development and marketing efforts, including product development or launch delays, product performance issues during development, changing regulatory frameworks that affect the new products in development and the availability of key raw materials included in such products. These inherent risks could result in the failure of new products and product line extensions to achieve anticipated levels of market acceptance, additional costs resulting from failed product introductions and the Company not being first to market. As the Company continues to focus on innovation and renovation, the Company's business, financial condition or results of operations could be adversely affected in the event that the Company is not able to effectively develop and introduce new or renovated products and line or brand extensions.

***The Company's business development activities may not be successful.***

The Company seeks to increase growth through business development activities such as acquisitions, joint ventures, licensing and/or other strategic partnerships in the United States and internationally. However, if the Company is not able to identify, acquire and successfully integrate acquired products or companies or successfully manage joint ventures or other strategic partnerships, the Company may not be able to maximize these opportunities. The failure to properly manage business development activities because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors could materially adversely affect the Company's business, financial condition and results of operations. In addition, there can be no assurance that the Company's business development activities will be profitable at their inception or that they will achieve sales levels and profitability that justify the investments made.

Future acquisitions, joint ventures or strategic partnerships could also result in the incurrence of debt, potentially dilutive issuances of equity securities, contingent liabilities, amortization expenses related to certain intangible assets and/or increased operating expenses, all of which could adversely affect the Company's results of operations and financial condition. In addition, to the extent that the economic benefits associated with any of the Company's business development activities diminish in the future, the Company may be required to record impairments to goodwill, intangible assets or other assets associated with such activities, which could also adversely affect the Company's business, financial condition and results of operations.

***Goodwill and intangible assets are subject to impairment risk.***

In accordance with the authoritative guidance on goodwill, intangibles and other, the Company assesses the potential impairment of its existing goodwill during the second fiscal quarter of each fiscal year and otherwise when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. The Company also assesses its definite-lived intangible assets for potential impairment when events and circumstances indicate that the carrying amount of the asset may not be recoverable and/or its remaining useful life may no longer be appropriate. 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, unexpected negative industry or economic trends, decline in the Company's stock price for a sustained period, decreased market capitalization relative to net book values, 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.

The Company may be required to record a significant charge in its consolidated financial statements during the period in which any impairment of its goodwill or intangible assets is identified and this would negatively impact the Company's financial condition and results of operations. Although the Company has recorded significant impairments to certain of its indefinite-lived intangible assets in prior fiscal years, no such impairments have been identified or recorded in recent fiscal years associated with its goodwill or definite-lived intangible assets. As of August 31, 2012, the Company only held goodwill and definite-lived intangible assets as its remaining indefinite-lived intangible assets, which include the Spot Shot, 2000 Flushes and 1001 trade names, were reclassified to definite-lived intangible assets effective February 28, 2011.



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*The Company's operating results and financial performance may not meet expectations which could adversely affect the Company's stock price.*

The Company cannot be sure that its operating results and financial performance, which include sales growth, net income, earnings per common share, gross margin and cash flows, will meet expectations. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of its key goals or core strategic initiatives, then the Company's actual performance could vary materially from its internal expectations and those of the market. Failure to meet or exceed these expectations could cause the market price of the Company's stock to decline. The Company's operating results and financial performance may be negatively influenced by a number of factors, many of which are discussed in this Item 1A Risk Factors. In addition, the Company's stock price could significantly fluctuate as a result of the following factors:

Significant variations in the Company's operating results;

Operating results that vary from the expectations of management, securities analysts or investors;

Changes in product sales prices by the Company or its competitors and consumer and customer reactions to such sales price changes;

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

The Company's ability to control internal costs and to generate expected cost savings and efficiencies;

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

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

The Company's reliance on brokers for the grocery and industrial channels;

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

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

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

*Resolution of income tax matters may impact the Company's financial condition and results of operations.*

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Significant judgment is required in determining the Company's effective income tax rate and in evaluating tax positions, particularly those related to uncertain tax positions. The Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the accounting standard for uncertain tax positions. Changes in uncertain tax positions or other adjustments resulting from tax audits and settlements with taxing authorities, including related interest and penalties, impact the

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Company's effective tax rate. When particular tax matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable resolution of any tax matter could increase the Company's effective tax rate. Any resolution of a tax matter may require the adjustment of tax assets or tax liabilities or the use of cash in the year of resolution. For additional information, refer to the information set forth in Note 13 – Income Taxes of the consolidated financial statements, included in Item 15 of this report.

***Product liability claims and other litigation and/or regulatory action could adversely affect the Company's sales and operating results.***

While the Company makes every effort to ensure that the products it develops and markets are safe for consumers, the use of the Company's products may expose the Company to liability claims resulting from such use. Claims could be based on allegations that, among other things, the Company's products contain contaminants, provide inadequate instructions regarding their use or inadequate warnings concerning their use or interactions with other substances. Product liability claims could result in negative publicity that could harm the Company's sales and operating results. The Company maintains product liability insurance that it believes will be adequate to protect the Company from material loss attributable to such claims but the extent of such loss could exceed available limits of insurance or could arise out of circumstances under which such insurance coverage would be unavailable. Other business activities of the Company may also expose the Company to litigation risks, including risks that may not be covered by insurance such as contract disputes. If successful claims are asserted by third parties against the Company for uninsured liabilities or liabilities in excess of applicable limits of insurance coverage, the Company's business, financial condition and results of operations may be adversely affected. In addition, if one of the Company's products were determined to be defective, the Company could be required to recall the product, which could result in adverse publicity and significant expenses.

Additionally, the Company's products may be associated with competitor products or other products in the same category, which may be alleged to have caused harm to consumers. As a result of this association, the Company may be named in unwarranted legal actions. The potential costs to defend such claims may materially affect the Company's business, financial condition and results of operations.

***Failure to maximize or to successfully assert the Company's intellectual property rights or infringement by the Company on the intellectual property rights of others could impact its competitiveness or otherwise adversely affect the Company's financial condition and results of operations.***

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

If the Company is found to have violated the trademark, trade secret, copyright, patent or other intellectual property rights of others, such a finding could result in the need to cease the use of a trademark, trade secret, copyrighted work or patented invention in the Company's business and an obligation to pay a substantial amount

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for past infringement. It could also be necessary to pay a substantial amount in the future if the holders of such rights are willing to permit the Company to continue to use the intellectual property rights. Either having to cease use or pay such amounts could make the Company less competitive and could have a material adverse impact on its business, financial condition and results of operations.

***Changes in marketing distributor relationships that are not managed successfully by the Company could result in a disruption in the affected markets.***

The Company distributes its products throughout the world in one of two ways: the Direct Distribution model, in which products are sold directly by the Company to wholesalers and retailers in the U.S., Canada, Australia, China, the U.K. and a number of other countries throughout Europe; and the Marketing Distributor model, in which products are sold to marketing distributors who in turn sell to wholesalers and retailers. The Marketing Distributor model is generally used in certain countries where the Company does not have direct Company-owned operations. Instead, the Company partners with local companies who perform the sales, marketing and distribution functions. The Company invests time and resources in these relationships. Should the Company's relationship with a marketing distributor change or terminate, the Company's sales within such marketing distributor's territory could be adversely impacted until such time as a suitable replacement could be found and the Company's key marketing strategies implemented. There is a risk that changes in such marketing distributor relationships, including changes in key marketing distributor personnel, that are not managed successfully, could result in a disruption in the affected markets and that such disruption could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, in some countries, local laws may require substantial payments to terminate existing marketing distributor relationships, which could also have a material adverse effect on the Company's business, financial condition and results of operations.

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

Historically, the Company's acquisitions have been funded to a large extent by debt. In order to service the debt, the Company is required to use its income from operations to make interest and principal payments required by the terms of the loan agreements. In addition, the Company's loan agreements typically include covenants to maintain certain financial ratios and to comply with other financial terms, conditions and covenants. Also, the Company has historically paid out a large part of its earnings to stockholders in the form of regular quarterly cash dividends. In December 2011, the Board of Directors declared a 7% increase in the regular quarterly cash dividend, increasing it from \$0.27 per share to \$0.29 per share.

The Company may incur substantial debt in the future for acquisitions or other business development activities. In addition, the Company may continue to use available cash balances to execute share repurchases under approved share buy-back plans. To the extent that the Company is required to seek additional financing to support certain of these activities, such financing may not be available in sufficient amounts or on terms acceptable to the Company. If the Company is unable to obtain such financing or to service its existing or future debt with its operating income, or if available cash balances are affected by future business performance, liquidity, capital needs, alternative investment opportunities or debt covenants, the Company could be required to reduce, suspend or eliminate its dividend payments to its stockholders.

***The Company may experience difficulties with or malfunctions of the critical information systems that it uses for the daily operations of its business and this could adversely affect the Company's business, financial condition and results of operations.***

System failure, malfunction or loss of data which is housed in the Company's critical information systems could disrupt its ability to timely and accurately process transactions and produce key financial reports, including information on the Company's operating results, financial position and cash flows. The Company's information systems could be damaged or cease to function properly due to a number of reasons, including catastrophic events, power outages and security breaches. Although the Company has certain business continuity plans in

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place to address such service interruptions, there is no guarantee that these business continuity plans will provide alternative processes in a timely manner. As a result, the Company may experience interruptions in its ability to manage its daily operations and this could adversely affect the Company's business, f