WD 40 CO
Form 10-Q
January 09, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2008

OR

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

For the transition period from to

Commission File Number 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**95-1797918**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1061 Cudahy Place	
San Diego, CA	**92110**
(Address of principal executive offices)	**(Zip Code)**

(619) 275-1400

(Registrant s telephone number, including area code)

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 x 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of December 31, 2008 was 16,500,304.

Table of Contents

WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended November 30, 2008

TABLE OF CONTENTS

Table of Contents

Part I Financial Information

Item 1. Financial Statements

WD-40 COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share and per share amounts)

	November 30, 2008	August 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 26,340	$ 41,983
Trade accounts receivable, less allowance for doubtful accounts of $423 and $486 at November 30, 2008 and August 31, 2008, respectively	46,377	49,271
Product held at contract packagers	3,675	2,453
Inventories	20,332	18,280
Current deferred tax assets, net	4,012	4,045
Other current assets	4,014	3,453
Total current assets	104,750	119,485
Property, plant and equipment, net	11,216	11,309
Goodwill	95,182	95,909
Other intangible assets, net	38,998	39,992
Investment in related party	192	435
Other assets	3,472	3,543
Total assets	$ 253,810	$ 270,673
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 18,201	$ 22,985
Accounts payable to related party	164	547
Accrued liabilities	13,977	13,143
Current portion of long-term debt	10,714	10,714
Accrued payroll and related expenses	4,919	6,084
Income taxes payable	3,650	1,090
Total current liabilities	51,625	54,563
Long-term debt	21,429	32,143
Long-term deferred tax liabilities, net	17,144	16,876
Deferred employee benefits and other long-term liabilities	3,032	3,099
Total liabilities	93,230	106,681
Shareholders equity:		
Common stock authorized 36,000,000 shares, $0.001 par value; 18,063,802 and 18,041,715 shares issued at November 30, 2008 and August 31, 2008, respectively; and 16,500,304 and 16,478,217 shares outstanding at November 30, 2008 and August 31, 2008, respectively	18	18
Additional paid-in capital	83,934	82,647
Retained earnings	132,178	128,627

Accumulated other comprehensive (loss) income		(5,484)		2,766
Common stock held in treasury, at cost 1,563,498 shares		(50,066)		(50,066)
Total shareholders equity		160,580		163,992
Total liabilities and shareholders equity	$	253,810	$	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)

	Three Months Ended November 30, 2008	2007
Net sales	$ 83,597	$ 79,150
Cost of products sold (including cost of products acquired from related party of $4,260 and $6,681 for the three months ended November 30, 2008 and 2007, respectively)	44,860	41,680
Gross profit	38,737	37,470
Operating expenses:		
Selling, general and administrative	21,117	21,224
Advertising and sales promotion	5,413	6,640
Amortization of intangible asset	129	152
Total operating expenses	26,659	28,016
Income from operations	12,078	9,454
Other (expense) income:		
Interest expense, net of interest income of $258 and $530 for the three months ended November 30, 2008 and 2007, respectively	(440)	(406)
Other income, net	221	312
Income before income taxes	11,859	9,360
Provision for income taxes	4,174	3,130
Net income	$ 7,685	$ 6,230
Earnings per common share:		
Basic	$ 0.47	$ 0.37
Diluted	$ 0.46	$ 0.36
Shares used in per share calculations:		
Basic	16,495,678	16,889,137
Diluted	16,673,569	17,092,792
Dividends declared per common share	$ 0.25	$ 0.25

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)

	Three Months Ended November 30, 2008	2007
Operating activities:		
Net income	$ 7,685	$ 6,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	909	931
Net gains on sales and disposals of property and equipment	(3)	(4)
Deferred income tax expense (benefit)	519	(535)
Excess tax benefits from exercises of stock options	(14)	(147)
Equity losses (earnings) from related party	243	(41)
Stock-based compensation	625	493
Changes in assets and liabilities:		
Trade accounts receivable	(1,569)	508
Product held at contract packagers	(1,222)	(170)
Inventories	(2,903)	(2,317)
Other assets	(976)	(1,799)
Accounts payable and accrued expenses and liabilities	(2,806)	(5,509)
Accounts payable to related party	(383)	1,265
Income taxes payable	2,874	995
Deferred employee benefits and other long-term liabilities	(33)	2,006
Net cash provided by operating activities	2,946	1,906
Investing activities:		
Capital expenditures	(1,172)	(1,032)
Proceeds from sales of property and equipment	60	41
Purchases of marketable securities		(51,325)
Proceeds from sales of marketable securities		51,325
Net cash used in investing activities	(1,112)	(991)
Financing activities:		
Repayments of long-term debt	(10,714)	(10,714)
Proceeds from issuance of common stock	640	2,784
Excess tax benefits from exercises of stock options	14	147
Dividends paid	(4,134)	(4,215)
Net cash used in financing activities	(14,194)	(11,998)
Effect of exchange rate changes on cash and cash equivalents	(3,283)	369
Net decrease in cash and cash equivalents	(15,643)	(10,714)
Cash and cash equivalents at beginning of period	41,983	61,078
Cash and cash equivalents at end of period	$ 26,340	$ 50,364

See accompanying notes to unaudited condensed consolidated financial statements.

5

Table of Contents

WD-40 COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in thousands)

	Three Months Ended November 30,	
	2008	2007
Net income	$ 7,685	$ 6,230
Other comprehensive (loss) income:		
Equity adjustment from foreign currency translation, net of tax benefit (provision) of $130 and ($45) for the three months ended November 30, 2008 and 2007, respectively	(8,250)	1,088
Total comprehensive (loss) income	$ (565)	$ 7,318

See accompanying notes to unaudited condensed consolidated financial statements.

6

Table of Contents

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 such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the U.K., Australia and the Pacific Rim.

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 6 percent and 7 percent of the Company s consolidated net sales during the three months ended November 30, 2008 and 2007, respectively. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 4 percent and 3 percent, respectively, of the Company s consolidated net sales during the three months ended November 30, 2008 and 2007, respectively.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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 Adopted Accounting Pronouncements

Effective September 1, 2008, the Company adopted the required portions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which had no impact on the 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 deferred 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 provisions of SFAS No. 157 for nonfinancial assets and liabilities, except for items recognized at fair value on a recurring basis, on its consolidated financial position and results of operations.

Also effective September 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159), which permits entities to choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any items; therefore, the adoption of SFAS No. 159 did not have an impact on the Company s consolidated financial position and results of operations.

Recently Issued Accounting Pronouncements

In December 2008, the FASB issued Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*, which promptly improves disclosures by public companies until the pending amendments to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140), and FIN No. 46, *Consolidation of Variable Interest Entities (revised December*

Table of Contents

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2003) an interpretation of ARB No. 51 (FIN 46(R)), are finalized and approved by the Board. The FSP amends SFAS No. 140 to require public companies to provide additional disclosures about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends FIN 46(R) to require public companies to provide additional disclosures about their involvement with variable interest entities. This FSP is effective for reporting periods ending after December 15, 2008. The Company is currently assessing the effect of FAS 140-4 and FIN 46(R)-8 on its consolidated financial position and results of operations.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FAS 133* (SFAS No. 161), which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Therefore, the Company will be required to adopt SFAS No. 161 for the interim period beginning December 1, 2008. The Company is currently evaluating the impact of SFAS No. 161 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. During the second quarter of fiscal year 2008, the Company tested its goodwill and indefinite-lived intangible assets for impairment. Based on this test, the Company determined that there were no instances of impairment.

In addition to the annual impairment tests, goodwill and intangible assets with indefinite lives are evaluated each reporting period. Goodwill is evaluated each reporting period to determine whether events and circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value. Intangible assets with indefinite lives are evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life and to determine whether any indicators of impairment exist. Indicators such as underperformance relative to historical or projected future operating results, changes in the Company s strategy for its overall business or use of acquired assets, decline in the Company s stock price for a sustained period, unexpected adverse industry or economic trends, unanticipated technological change or competitive activities, loss of key distribution, change in consumer demand, loss of key personnel and acts by governments and courts may signal that an asset has become impaired.

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives and are evaluated each reporting period to determine whether events and circumstances continue to support their remaining useful lives.

As of August 31, 2008, the Company performed additional tests of impairment of its indefinite-lived intangible assets due to the decline in the future forecasted sales levels of the X-14 brand resulting from management s strategic decision during the fourth quarter of fiscal year 2008 to withdraw a number of products from the grocery trade channel. Based on the results of this test, the Company recorded an impairment charge of $1.3 million in the consolidated statement of operations for the fiscal year ended August 31, 2008.

Currently, the fair values of the Carpet Fresh and X-14 brands approximate their carrying values, and the fair values of the Company s other homecare and cleaning brands exceed their carrying values. Management has concluded that the Carpet Fresh and X-14 brands may have a higher risk of