WD 40 CO
Form 10-Q
July 10, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended May 31, 2007

Commission File No. 000-06936

WD-40 COMPANY

(Exact Name of Registrant as specified in its charter)

Delaware	**95-1797918**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1061 Cudahy Place, San Diego, California	**92110**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of June 29, 2007, 17,242,436 shares of the Registrant s Common Stock were outstanding.

Part I Financial Information

ITEM 1. Financial Statements

WD-40 Company

Consolidated Condensed Balance Sheets

(unaudited)

	May 31, 2007	August 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 65,982,000	$ 45,206,000
Trade accounts receivable, less allowance for doubtful accounts of $715,000 and $762,000	45,474,000	44,491,000
Product held at contract packagers	2,059,000	1,385,000
Inventories	15,061,000	15,269,000
Current deferred tax assets, net	4,218,000	4,331,000
Other current assets	3,079,000	4,858,000
Total current assets	135,873,000	115,540,000
Property, plant and equipment, net	8,551,000	8,940,000
Goodwill	96,316,000	96,118,000
Other intangibles, net	42,565,000	42,722,000
Investment in related party	971,000	972,000
Other assets	3,912,000	4,183,000
	$ 288,188,000	$ 268,475,000
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 10,714,000	$ 10,714,000
Accounts payable	17,974,000	11,287,000
Accounts payable to related party	1,183,000	463,000
Accrued liabilities	14,539,000	11,678,000
Accrued payroll and related expenses	5,505,000	7,485,000
Income taxes payable	1,515,000	2,040,000
Total current liabilities	51,430,000	43,667,000
Long-term debt	42,857,000	53,571,000
Deferred employee benefits and other long-term liabilities	2,057,000	1,895,000
Long-term deferred tax liabilities, net	15,304,000	13,611,000
Total liabilities	111,648,000	112,744,000
Shareholders equity:		
Common stock, $.001 par value, 36,000,000 shares authorized 17,775,634 and 17,510,668 shares issued	18,000	17,000
Paid-in capital	71,418,000	62,322,000
Retained earnings	113,313,000	103,335,000
Accumulated other comprehensive income	6,817,000	5,083,000
Common stock held in treasury, at cost (534,698 shares)	(15,026,000)	(15,026,000)

Total shareholders equity	176,540,000	155,731,000
	$ 288,188,000	$ 268,475,000

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

WD-40 Company

Consolidated Condensed Statements of Operations

(unaudited)

	Three Months Ended May 31, 2007	2006	Nine Months Ended May 31, 2007	2006
Net sales	$ 77,581,000	$ 73,052,000	$ 228,868,000	$ 211,747,000
Cost of products sold (including cost of products acquired from related party of $4,481,000 and $10,775,000 for the three months ended May 31, 2007 and 2006, respectively; and $14,276,000 and $31,221,000 for the nine months ended May 31, 2007 and 2006, respectively)	40,714,000	37,633,000	118,490,000	109,738,000
Gross profit	36,867,000	35,419,000	110,378,000	102,009,000
Operating expenses:				
Selling, general and administrative	20,215,000	18,356,000	59,006,000	51,980,000
Advertising and sales promotion	5,173,000	5,923,000	15,876,000	14,097,000
Amortization of intangible asset	147,000	132,000	434,000	394,000
Income from operations	11,332,000	11,008,000	35,062,000	35,538,000
Other (expense) income:				
Interest expense, net of interest income of $568,000 and $249,000 for the three months ended May 31, 2007 and 2006, respectively; and $1,405,000 and $923,000 for the nine months ended May 31, 2007 and 2006, respectively	(401,000)	(953,000)	(1,695,000)	(2,811,000)
Other income, net	333,000	181,000	148,000	404,000
Income before income taxes	11,264,000	10,236,000	33,515,000	33,131,000
Provision for income taxes	3,620,000	3,190,000	11,238,000	11,341,000
Net income	$ 7,644,000	$ 7,046,000	$ 22,277,000	$ 21,790,000
Earnings per common share:				
Basic	$ 0.45	$ 0.42	$ 1.31	$ 1.30
Diluted	$ 0.44	$ 0.42	$ 1.29	$ 1.29
Weighted average common shares outstanding, basic	17,144,254	16,829,760	17,070,228	16,745,433
Weighted average common shares outstanding, diluted	17,328,473	16,969,770	17,267,763	16,857,735
Dividends declared per share	$ 0.25	$ 0.22	$ 0.72	$ 0.66

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

WD-40 Company

Consolidated Condensed Statements of Cash Flows

(unaudited)

	Nine Months Ended May 31, 2007	Nine Months Ended May 31, 2006
Cash flows from operating activities:		
Net income	$ 22,277,000	$ 21,790,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,742,000	2,571,000
Gains on sales and disposals of property and equipment	(17,000)	(24,000)
Deferred income tax expense	1,622,000	(437,000)
Excess tax benefits from exercise of stock options	(436,000)	(321,000)
Distributions received and equity (earnings) losses from related party, net	1,000	219,000
Stock-based compensation	1,502,000	1,396,000
Changes in assets and liabilities:		
Trade accounts receivable	21,000	5,283,000
Product held at contract packagers	(674,000)	326,000
Inventories	449,000	(7,029,000)
Other assets	1,769,000	3,623,000
Accounts payable and accrued expenses	7,222,000	(2,288,000)
Accounts payable to related party	720,000	(1,231,000)
Income taxes payable	83,000	2,141,000
Deferred employee benefits and other long-term liabilities	82,000	78,000
Net cash provided by operating activities	37,363,000	26,097,000
Cash flows from investing activities:		
Purchases of short-term investments	(171,625,000)	(20,300,000)
Sales of short-term investments	171,625,000	
Proceeds from collections on note receivable	25,000	50,000
Capital expenditures	(1,628,000)	(2,446,000)
Proceeds from sales of property and equipment	233,000	210,000
Net cash used in investing activities	(1,370,000)	(22,486,000)
Cash flows from financing activities:		
Repayments of long-term debt	(10,714,000)	(10,714,000)
Proceeds from issuance of common stock	7,086,000	4,755,000
Excess tax benefits from exercise of stock options	436,000	321,000
Dividends paid	(12,299,000)	(11,043,000)
Net cash used in financing activities	(15,491,000)	(16,681,000)
Effect of exchange rate changes on cash and cash equivalents	274,000	328,000
Increase (decrease) in cash and cash equivalents	20,776,000	(12,742,000)
Cash and cash equivalents at beginning of period	45,206,000	37,120,000
Cash and cash equivalents at end of period	$ 65,982,000	$ 24,378,000

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

WD-40 Company

Consolidated Condensed Statements of Comprehensive Income

(unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	**2006**	**2007**	**2006**
Net income	$ 7,644,000	$ 7,046,000	$ 22,277,000	$ 21,790,000
Other comprehensive income:				
Equity adjustment from foreign currency translation, net of tax provision of $143,000 and $464,000 for the three months ended May 31, 2007 and 2006, respectively; and $28,000 and $300,000 for the nine months ended May 31, 2007 and 2006, respectively	529,000	1,935,000	1,734,000	1,458,000
Total comprehensive income	$ 8,173,000	$ 8,981,000	$ 24,011,000	$ 23,248,000

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

WD-40 COMPANY

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

May 31, 2007

(unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

WD-40 Company (the Company), based in San Diego, California, markets two lubricant brands known as WD-40® and 3-IN-ONE Oil®, two heavy-duty hand cleaner brands known as Lava ® and Solvol ®, and six household product brands known as X-14 ® hard surface cleaners and automatic toilet bowl cleaners, 2000 Flushes ® automatic toilet bowl cleaner, Carpet Fresh ® and No Vac ® rug and room deodorizers, Spot Shot ® aerosol and liquid carpet stain removers and 1001 ® carpet and household cleaners and rug and room deodorizers.

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

Principles of Consolidation

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

Financial Statement Presentation

The financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The August 31, 2006 year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, the unaudited financial information for the interim periods reflects all adjustments necessary for a fair presentation thereof. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended August 31, 2006.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Short-term Investments

Periodically, the Company invests in short-term investments. These short-term investments consist of investment grade auction rate securities classified as available-for-sale and reported at fair value with maturities that could range from 13 months to 30 years. The interest rates are reset through an auction bidding process at predetermined periods ranging from 7 to 35 days. Due to the frequent nature of the reset feature, the realized or unrealized gains or losses associated with these securities are not significant; therefore, auction rate securities are stated at cost, which approximates fair value. Purchase and sale activity of short-term investments is presented as cash flows from investing activities in the consolidated statements of cash flows. For the first nine months of fiscal year 2007, the Company has purchased and sold $171.6 million of short-term investments. As of May 31, 2007 and August 31, 2006, the Company did not carry any short-term investments.

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

Sales Concentration

Wal-Mart Stores, Inc. is a significant U.S. mass retail customer and offers a variety of the Company s products. Sales to U.S. Wal-Mart stores accounted for approximately 8 percent and 9 percent of the Company s consolidated net sales during the three months ended May 31, 2007 and 2006, respectively, and 9 percent and 8 percent of the Company s consolidated net sales during the nine months ended May 31, 2007 and 2006, respectively. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 3 percent and 5 percent during the three-month periods ended May 31, 2007 and 2006, respectively, and 4 percent during each of the nine-month periods ended May 31, 2007 and 2006.

Earnings per Common Share

Basic earnings per common share is calculated by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted average number of common shares outstanding during the period increased by the weighted average number of potentially dilutive common shares (dilutive securities) that were outstanding during the period. Dilutive securities are comprised of options granted under the Company s stock option plan. The schedule below summarizes the weighted average number of common shares outstanding included in the calculation of basic and diluted earnings per common share for the periods ended May 31, 2007 and 2006.

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	**2006**	**2007**	**2006**
Weighted average common shares outstanding:				
Weighted average common shares outstanding, basic	17,144,254	16,829,760	17,070,228	16,745,433
Weighted average dilutive securities	184,219	140,010	197,535	112,302
Weighted average common shares outstanding, diluted	17,328,473	16,969,770	17,267,763	16,857,735

Weighted average options outstanding totaling 280,500 and 111,246 for the three months ended May 31, 2007 and 2006, respectively, and 231,960 and 473,342 for the nine months ended May 31, 2007 and 2006, respectively, were excluded from the calculation of diluted EPS, as the options have an exercise price greater than or equal to the average market value of the Company s common stock during the respective periods. Additionally, weighted average options outstanding totaling 212,196 and 264,780 for the three and nine months ended May 31, 2006, respectively, were also excluded from the calculation of diluted EPS under the treasury stock method as they were anti-dilutive. These options were anti-dilutive as a result of the assumed proceeds from (i) amounts option holders must pay for exercising stock options, (ii) the amount of compensation costs for future service that the Company has not yet recognized as expense, and (iii) the amount of tax benefits that would be recorded in additional paid-in capital upon exercise of the options. For each of the three- and nine-month periods ended May 31, 2007, there were no additional anti-dilutive weighted average options outstanding excluded from the calculation of diluted EPS under the treasury stock method.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments. This

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, Fair Value Measurements. Management is currently evaluating the impact that the implementation of SFAS No. 159 may have on the Company s consolidated results of operations and financial position.

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

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt this interpretation as required beginning September 1, 2007. Management is currently assessing the effect that FIN 48 will have on the Company s results of operations and financial condition.

NOTE 2 - GOODWILL AND OTHER INTANGIBLES

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

The Company tests for goodwill impairment based on the SFAS No. 142 goodwill impairment model, which is a two-step process. First, the impairment model requires comparison of the book value of net assets to the fair value of the related reporting units that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of impairment. In the second step, the implied fair value of goodwill is estimated as the fair value of the reporting unit used in the first step less the fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of goodwill exceeds its implied fair market value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. The Company tests for impairment of intangible assets with indefinite useful lives in accordance with SFAS No. 142 based on discounted future cash flows compared to the related book values. The Company s impairment test is based on a discounted cash flow approach that requires significant management judgment and estimates with respect to forecasted revenue, advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention and the selection of appropriate discount and royalty rates.

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

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

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

Acquisition-related Goodwill

Changes in the carrying amounts of goodwill by segment for the nine months ended May 31, 2007 are summarized below:

	Acquisition-related Goodwill			
	Americas	**Europe**	**Asia-Pacific**	**Total**
Balance as of August 31, 2006	$ 85,667,000	$ 9,239,000	$ 1,212,000	$ 96,118,000
Translation adjustments	28,000	169,000	1,000	198,000
Balance as of May 31, 2007	$ 85,695,000	$ 9,408,000	$ 1,213,000	$ 96,316,000

Indefinite-lived Intangible Assets

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

Changes in the carrying amounts of indefinite-lived intangibles by segment for the nine months ended May 31, 2007 are summarized below:

	Indefinite-lived Intangibles			
	Americas	**Europe**	**Asia-Pacific**	**Total**
Balance as of August 31, 2006	$ 35,700,000	$ 3,862,000	$	$ 39,562,000
Translation adjustments		156,000		156,000
Balance as of May 31, 2007	$ 35,700,000	$ 4,018,000	$	$ 39,718,000

Definite-lived Intangible Asset

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

	As of May 31, 2007	**As of August 31, 2006**
Gross carrying amount	$ 4,712,000	$ 4,528,000
Accumulated amortization	(1,865,000)	(1,368,000)
Net carrying amount	$ 2,847,000	$ 3,160,000

	Three Months Ended May 31,		**Nine Months Ended May 31,**	
	2007	**2006**	**2007**	**2006**

Amortization expense	$ 147,000	$ 132,000	$ 434,000	$ 394,000

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

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

Remainder of fiscal year 2007	$ 147,000
Fiscal year 2008	589,000
Fiscal year 2009	589,000
Fiscal year 2010	589,000
Fiscal year 2011	589,000
Thereafter	344,000
	$ 2,847,000

Changes in the carrying amounts of definite-lived intangibles by segment for the nine months ended May 31, 2007 are summarized below:

	Definite-lived Intangibles			
	Americas	Europe	Asia-Pacific	Total
Balance as of August 31, 2006	$	$ 3,160,000	$	$ 3,160,000
Amortization		(434,000)		(434,000)
Translation adjustments		121,000		121,000
Balance as of May 31, 2007	$	$ 2,847,000	$	$ 2,847,000

NOTE 3 - SELECTED FINANCIAL STATEMENT INFORMATION

	As of May 31, 2007	As of August 31, 2006
Inventories		
Raw materials and components	$ 1,632,000	$ 1,110,000
Work-in-process	1,686,000	2,196,000
Finished goods	11,743,000	11,963,000
	$ 15,061,000	$ 15,269,000
Other Current Assets		
Prepaid expenses and other	$ 3,049,000	$ 4,229,000
Federal income taxes receivable	30,000	629,000
	$ 3,079,000	$ 4,858,000
Property, Plant and Equipment, net		
Land	$ 593,000	$ 583,000

Buildings and improvements	4,363,000	4,196,000
Furniture and fixtures	1,167,000	1,090,000
Computer and office equipment	3,989,000	3,513,000
Software	3,508,000	3,207,000
Machinery, equipment and vehicles	7,439,000	7,135,000
	21,059,000	19,724,000
Less: accumulated depreciation	(12,508,000)	(10,784,000)
	$ 8,551,000	$ 8,940,000

Accrued Liabilities		
Accrued advertising and sales promotion expenses	$ 7,555,000	$ 6,854,000
Other	6,984,000	4,824,000
	$ 14,539,000	$ 11,678,000

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

	As of May 31 , 2007	As of August 31, 2006
Accrued Payroll and Related Expenses		
Accrued bonus	$ 1,979,000	$ 3,928,000
Accrued profit sharing	942,000	1,404,000
Accrued payroll	1,599,000	1,141,000
Accrued payroll taxes	791,000	779,000
Other	194,000	233,000
	$ 5,505,000	$ 7,485,000

NOTE 4 - RELATED PARTIES

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

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

Under Financial Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, VML qualifies as a variable interest entity, and it has been determined that the Company is not the primary beneficiary. The Company s investment in VML is accounted for using the equity method of accounting, and its equity in VML earnings or losses is recorded as a component of cost of products sold, as VML acts primarily as a contract manufacturer to the Company. The Company recorded equity losses related to its investment in VML of $1,000 and $51,000 for the three months ended May 31, 2007 and 2006, respectively. For the nine months ended May 31, 2007, the Company recorded equity earnings related to its investment in VML of $35,000. For the nine months ended May 31, 2006, the Company recorded equity losses related to its investment in VML of $147,000.

The Company s maximum exposure to loss as a result of its involvement with VML was $1.0 million as of May 31, 2007. This amount represents the balance of the Company s equity investment in VML, which is presented as investment in related party on the Company s consolidated balance sheets. The Company s investment in VML as of August 31, 2006 was $1.0 million.

Cost of products sold which were purchased from VML, net of rebates and equity earnings, was approximately $4.5 million and $10.8 million during the three months ended May 31, 2007 and 2006, respectively, and $14.3 million and $31.2 million for the nine months ended May 31, 2007 and 2006, respectively. The Company had product payables to VML of $1.2 million and $0.5 million at May 31, 2007 and August 31, 2006, respectively. Additionally, the Company receives rental income from VML, which is recorded as a component of other income, net. Rental income from VML was $48,000 during each of the three months ended May 31, 2007 and 2006, and $143,000 during each of the nine months ended May 31, 2007 and 2006.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

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

On April 19, 2006, a legal action was filed against the Company in the United States District Court, Southern District of

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

California *(Drimmer v. WD-40 Company)*. After several of the plaintiff s factual claims were dismissed by way of motion, the plaintiff filed an amended complaint on September 20, 2006, seeking class action status and alleging that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. The amended complaint seeks to remedy such allegedly wrongful conduct: (i) by requiring the Company to identify all consumers who have purchased the ATBCs and to return money as may be ordered by the court; and (ii) by the granting of other equitable relief, interest, attorneys fees and costs. Though a new named plaintiff brought this case, it is legally and factually identical to a similar case that was dismissed by the San Diego Superior Court in April 2005, and the Company intends to vigorously defend this case in the same manner as before. If class action certification is granted in this aforementioned legal action, it is reasonably possible that the outcome could have a material adverse effect on the operating results, financial position and cash flows of the Company. There is not sufficient information to estimate the Company s exposure at this time.

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

As permitted under Delaware law, the Company has agreements whereby it indemnifies senior officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company maintains Director and Officer insurance coverage that mitigates the Company s exposure with respect to such obligations. As a result of the Company s insurance coverage, management believes that the estimated fair value of these indemnification agreements is minimal. No liabilities have been recorded for these agreements as of May 31, 2007.

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

Additionally, the Company periodically enters into purchase commitments with suppliers for products under development. During the current fiscal year, the Company entered into a new agreement to purchase finished goods of approximately $0.7 million.

From time to time, the Company enters into indemnification agreements with certain contractual parties in the ordinary course of business, including agreements with lenders, lessors, contract manufacturers, marketing distributors, customers and certain vendors. All such indemnification agreements are entered into in the context of the particular agreements and are provided in an attempt to properly allocate risk of loss in connection with the consummation of the underlying contractual arrangements. Although the maximum amount of future payments that the Company could be required to make under these indemnification agreements is unlimited, management believes that the Company maintains adequate levels of insurance coverage to protect the Company with

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

respect to most potential claims arising from such agreements and that such agreements do not otherwise have value separate and apart from the liabilities incurred in the ordinary course of the Company s business. No liabilities have been recorded with respect to such indemnification agreements as of May 31, 2007.

NOTE 6 - BUSINESS SEGMENTS AND FOREIGN OPERATIONS

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

The tables below present information about reportable segments and net sales by product line for the three and nine months ended May 31:

Three Months Ended May 31:

	Americas	Europe	Asia-Pacific	Total
2007				
Net sales	$ 45,985,000	$ 25,380,000	$ 6,216,000	$ 77,581,000
Income from operations	$ 5,854,000	$ 4,509,000	$ 969,000	$ 11,332,000
Depreciation and amortization expense	$ 532,000	$ 345,000	$ 45,000	$ 922,000
Interest income	$ 401,000	$ 158,000	$ 9,000	$ 568,000
Interest expense	$ 965,000	$	$ 4,000	$ 969,000
Total assets	$ 219,317,000	$ 61,497,000	$ 7,374,000	$ 288,188,000
2006				
Net sales	$ 47,162,000	$ 20,589,000	$ 5,301,000	$ 73,052,000
Income from operations	$ 7,319,000	$ 2,711,000	$ 978,000	$ 11,008,000
Depreciation and amortization expense	$ 537,000	$ 309,000	$ 26,000	$ 872,000
Interest income	$ 193,000	$ 52,000	$ 4,000	$ 249,000
Interest expense	$ 1,202,000	$	$	$ 1,202,000
Total assets	$ 205,469,000	$ 52,075,000	$ 5,140,000	$ 262,684,000

Nine Months Ended May 31:

	Americas	Europe	Asia-Pacific	Total
2007				
Net sales	$ 140,071,000	$ 71,616,000	$ 17,181,000	$ 228,868,000
Income from operations	$ 19,047,000	$ 13,707,000	$ 2,308,000	$ 35,062,000
Depreciation and amortization expense	$ 1,614,000	$ 1,018,000	$ 110,000	$ 2,742,000
Interest income	$ 1,001,000	$ 381,000	$ 23,000	$ 1,405,000
Interest expense	$ 3,090,000	$	$ 10,000	$ 3,100,000
Total assets	$ 219,317,000	$ 61,497,000	$ 7,374,000	$ 288,188,000
2006				
Net sales	$ 138,895,000	$ 57,983,000	$ 14,869,000	$ 211,747,000
Income from operations	$ 23,016,000	$ 9,472,000	$ 3,050,000	$ 35,538,000
Depreciation and amortization expense	$ 1,581,000	$ 920,000	$ 70,000	$ 2,571,000
Interest income	$ 757,000	$ 153,000	$ 13,000	$ 923,000

Interest expense	$ 3,734,000	$	$	$ 3,734,000
Total assets	$ 205,469,000	$ 52,075,000	$ 5,140,000	$ 262,684,000

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(continued)

Product Line Information

	Net Sales	
Three Months Ended	**May 31, 2007**	**May 31, 2006**
Lubricants	$ 56,545,000	$ 48,807,000
Household products	19,367,000	22,760,000
Hand cleaners	1,669,000	1,485,000
	$ 77,581,000	$ 73,052,000

	Net Sales	
Nine Months Ended	**May 31, 2007**	**May 31, 2006**
Lubricants	$ 162,194,000	$ 140,299,000
Household products	62,087,000	66,730,000
Hand cleaners		