

WD 40 CO  
Form 10-Q  
January 09, 2017  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2016

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<br>(State or other jurisdiction<br>of incorporation or organization)        | 95-1797918<br>(I.R.S. Employer<br>Identification No.) |
| 1061 Cudahy Place, San Diego, California<br>(Address of principal executive offices) | 92110<br>(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      No

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

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

Large accelerated filer      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 Exchange Act).

Yes      No

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of January 4, 2017 was 14,115,152.

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WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended November 30, 2016

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## PART 1 - FINANCIAL INFORMATION

## Item 1. Financial Statements

## WD-40 COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

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

|   | November<br>30,<br>2016 | August 31,<br>2016 |
|---|-------------------------|--------------------|
| Assets  |                         |                    |
| Current assets:   |                         |                    |
| Cash and cash equivalents   | \$ 33,482               | \$ 50,891          |
| Short-term investments  | 67,339                  | 57,633             |
| Trade accounts receivable, less allowance for doubtful<br>accounts of \$242 and \$394 at November 30, 2016<br>and August 31, 2016, respectively | 55,851                  | 64,680             |
| Inventories   | 34,206                  | 31,793             |
| Other current assets  | 3,641                   | 4,475              |
| Total current assets  | 194,519                 | 209,472            |
| Property and equipment, net   | 22,016                  | 11,545             |
| Goodwill  | 95,432                  | 95,649             |
| Other intangible assets, net  | 18,263                  | 19,191             |
| Deferred tax assets, net  | 608                     | 621                |
| Other assets  | 2,817                   | 3,190              |
| Total assets  | \$ 333,655              | \$ 339,668         |
| Liabilities and Shareholders' Equity  |                         |                    |
| Current liabilities:  |                         |                    |
| Accounts payable  | \$ 18,131               | \$ 18,690          |
| Accrued liabilities   | 15,889                  | 15,757             |
| Accrued payroll and related expenses  | 13,363                  | 20,866             |
| Revolving credit facility, current  | 12,354                  | -                  |
| Income taxes payable  | 4,295                   | 3,381              |
| Total current liabilities   | 64,032                  | 58,694             |
| Revolving credit facility   | 122,000                 | 122,000            |
| Deferred tax liabilities, net   | 16,521                  | 16,365             |
| Other long-term liabilities   | 2,655                   | 2,214              |
| Total liabilities   | 205,208                 | 199,273            |

## Commitments and Contingencies (Note 11)

## Shareholders' equity:

Common stock authorized 36,000,000 shares, \$0.001 par value;  
19,653,335 and 19,621,820 shares issued at November 30, 2016 and  
August 31, 2016, respectively; and 14,127,152 and 14,208,338 shares

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|   |            |            |
|---|------------|------------|
| outstanding at November 30, 2016 and August 31, 2016, respectively  | 20         | 20         |
| Additional paid-in capital  | 146,498    | 145,936    |
| Retained earnings   | 295,402    | 289,642    |
| Accumulated other comprehensive income (loss)   | (33,412)   | (27,298)   |
| Common stock held in treasury, at cost 5,526,183 and 5,413,482<br>shares at November 30, 2016 and August 31, 2016, respectively | (280,061)  | (267,905)  |
| Total shareholders' equity  | 128,447    | 140,395    |
| Total liabilities and shareholders' equity  | \$ 333,655 | \$ 339,668 |

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF  
 OPERATIONS

(Unaudited and in thousands, except per share amounts)

|  | Three Months Ended<br>November 30, |           |
|--|------------------------------------|-----------|
|  | 2016                               | 2015      |
| Net sales  | \$ 89,248                          | \$ 92,522 |
| Cost of products sold                            | 38,208                             | 41,114    |
| Gross profit                                     | 51,040                             | 51,408    |
| Operating expenses:                              |                                    |           |
| Selling, general and administrative              | 28,991                             | 27,848    |
| Advertising and sales promotion                  | 4,812                              | 5,660     |
| Amortization of definite-lived intangible assets | 721                                | 755       |
| Total operating expenses                         | 34,524                             | 34,263    |
| Income from operations                           | 16,516                             | 17,145    |
| Other income (expense):                          |                                    |           |
| Interest income                                  | 147                                | 148       |
| Interest expense                                 | (531)                              | (372)     |
| Other income (expense), net                      | 264                                | (51)      |
| Income before income taxes                       | 16,396                             | 16,870    |
| Provision for income taxes                       | 4,638                              | 4,808     |
| Net income                                       | \$ 11,758                          | \$ 12,062 |
| Earnings per common share:                       |                                    |           |
| Basic  | \$ 0.82                            | \$ 0.83   |
| Diluted  | \$ 0.82                            | \$ 0.83   |
| Shares used in per share calculations:           |                                    |           |
| Basic  | 14,180                             | 14,404    |
| Diluted  | 14,221                             | 14,461    |
| Dividends declared per common share              | \$ 0.42                            | \$ 0.38   |

See accompanying notes to condensed consolidated financial statements.

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

|   | Three Months Ended<br>November 30, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| Net income                              | \$ 11,758                          | \$ 12,062 |
| Other comprehensive loss:               |                                    |           |
| Foreign currency translation adjustment | (6,114)                            | (2,663)   |
| Total comprehensive income              | \$ 5,644                           | \$ 9,399  |

See accompanying notes to condensed consolidated financial statements.



WD-40 COMPANY  
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
 (Unaudited and in thousands, except share and per share amounts)

|  | Common Stock |        | Additional         | Retained   | Accumulated                                | Treasury Stock |              | Total                   |
|--|--------------|--------|--------------------|------------|--|----------------|--------------|-------------------------|
|  | Shares       | Amount | Paid-in<br>Capital | Earnings   | Other<br>Comprehensive<br>Income<br>(Loss) | Shares         | Amount       | Shareholders'<br>Equity |
| Balance at August 31, 2016   | 19,621,820   | \$ 20  | \$ 145,936         | \$ 289,642 | \$ (27,298)                                | 5,413,482      | \$ (267,905) | \$ 140,395              |
| Issuance of common stock under share-based compensation plan, net of shares withheld for taxes | 31,515       |        | (1,495)            |            |  |                |              | (1,495)                 |
| Stock-based compensation   |              |        | 1,622              |            |  |                |              | 1,622                   |
| Tax benefits from settlements of stock-based equity awards                                     |              |        | 435                |            |  |                |              | 435                     |
| Cash dividends (\$0.42 per share)  |              |        |                    | (5,998)    |  |                |              | (5,998)                 |
| Acquisition of treasury stock  |              |        |                    |            |  | 112,701        | (12,156)     | (12,156)                |
| Foreign currency translation adjustment  |              |        |                    |            | (6,114)                                    |                |              | (6,114)                 |
| Net income   |              |        |                    | 11,758     |  |                |              | 11,758                  |
| Balance at November 30, 2016   | 19,653,335   | \$ 20  | \$ 146,498         | \$ 295,402 | \$ (33,412)                                | 5,526,183      | \$ (280,061) | \$ 128,447              |

See accompanying notes to condensed consolidated financial statements.

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

|   | Three Months Ended<br>November 30, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| Operating activities:   |                                    |           |
| Net income  | \$ 11,758                          | \$ 12,062 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 1,620                              | 1,661     |
| Net gains on sales and disposals of property and equipment                        | (54)                               | (3)       |
| Deferred income taxes   | (405)                              | 3         |
| Excess tax benefits from settlements of stock-based equity awards                 | (435)                              | (1,390)   |
| Stock-based compensation  | 1,622                              | 633       |
| Unrealized foreign currency exchange losses, net                                  | 1,075                              | 360       |
| Provision for bad debts   | (120)                              | 78        |
| Changes in assets and liabilities:  |                                    |           |
| Trade and other accounts receivable   | 6,357                              | 430       |
| Inventories   | (2,876)                            | (3,730)   |
| Other assets  | 1,070                              | 1,688     |
| Accounts payable and accrued liabilities  | 203                                | 3,617     |
| Accrued payroll and related expenses  | (8,886)                            | (3,187)   |
| Income taxes payable  | 2,619                              | 2,403     |
| Other long-term liabilities   | (45)                               | 20        |
| Net cash provided by operating activities   | 13,503                             | 14,645    |
| Investing activities:   |                                    |           |

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|   |           |           |
|---|-----------|-----------|
| Purchases of property and equipment                               | (11,603)  | (448)     |
| Proceeds from sales of property and equipment                     | 162       | -         |
| Purchases of short-term investments                               | (16,997)  | (2,933)   |
| Maturities of short-term investments                              | 4,548     | 2,846     |
| Net cash used in investing activities                             | (23,890)  | (535)     |
| Financing activities:   |           |           |
| Treasury stock purchases  | (12,156)  | (8,075)   |
| Dividends paid  | (5,998)   | (5,500)   |
| Proceeds from issuance of common stock                            | 197       | 421       |
| Excess tax benefits from settlements of stock-based equity awards | 435       | 1,390     |
| Net proceeds from revolving credit facility                       | 12,354    | 10,000    |
| Net cash used in financing activities                             | (5,168)   | (1,764)   |
| Effect of exchange rate changes on cash and cash equivalents      | (1,854)   | (1,171)   |
| Net (decrease) increase in cash and cash equivalents              | (17,409)  | 11,175    |
| Cash and cash equivalents at beginning of period                  | 50,891    | 53,896    |
| Cash and cash equivalents at end of period                        | \$ 33,482 | \$ 65,071 |

See accompanying notes to condensed consolidated financial statements.



WD-40 COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. The Company

WD-40 Company (“the Company”), based in San Diego, California, is a global marketing organization dedicated to creating positive lasting memories by developing and selling products which solve problems in workshops, factories and homes around the world. The Company markets its maintenance products and its homecare and cleaning products under the following well-known brands: WD-40®, 3-IN-ONE®, GT85®, X-14®, 2000 Flushes®, Carpet Fresh®, no vac®, Spot Shot®, 1001®, Lava® and Solvol®. Currently included in the WD-40 brand are the WD-40 multi-use product and the WD-40 Specialist® and WD-40 BIKE® product lines.

The Company’s brands are sold in various locations around the world. Maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the United Kingdom (“U.K.”) and Australia. The Company’s products are sold primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets, sport retailers, independent bike dealers, online retailers and industrial distributors and suppliers.

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

Basis of Consolidation

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 (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The August 31, 2016 year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

In the opinion of management, the unaudited financial information for the interim periods shown reflects all adjustments necessary for a fair statement thereof and such adjustments are of a normal recurring nature. 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, 2016,

which was filed with the SEC on October 24, 2016.

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

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses 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 periods. Actual results could differ from those estimates. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

#### Foreign Currency Forward Contracts

In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency exchange rates. The Company's U.K. subsidiary, whose functional currency is Pound Sterling, utilizes foreign currency forward contracts to limit its exposure in converting accounts receivable and accounts payable balances denominated in non-functional currencies. The principal currency affected is the Euro. The Company regularly monitors its foreign currency exchange rate exposures to ensure the overall effectiveness of its foreign currency

hedge positions. While the Company engages in foreign currency hedging activity to reduce its risk, for accounting purposes, none of its foreign currency forward contracts are designated as hedges.

Foreign currency forward contracts are carried at fair value, with net realized and unrealized gains and losses recognized currently in other income (expense) in the Company's consolidated statements of operations. Cash flows from settlements of foreign currency forward contracts are included in operating activities in the consolidated statements of cash flows. Foreign currency forward contracts in an asset position at the end of the reporting period are included in other current assets, while foreign currency forward contracts in a liability position at the end of the reporting period are included in accrued liabilities in the Company's consolidated balance sheets. At November 30, 2016, the Company had a notional amount of \$14.2 million outstanding in foreign currency forward contracts, which mature in January 2017. Unrealized net gains and losses related to foreign currency forward contracts were not significant at November 30, 2016 and August 31, 2016. Realized net losses related to foreign currency forward contracts were \$0.4 million for three months ended November 30, 2016 and the net realized gains and losses were not material for the three months ended November 30, 2015.

#### Fair Value Measurements

Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures", defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company categorizes its financial assets and liabilities measured at fair value into a hierarchy that categorizes fair value measurements into the following three levels based on the types of inputs used in measuring their fair value:

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

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

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

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of November 30, 2016, the Company had no assets or liabilities that are measured at fair value in the financial statements on a recurring basis, with the exception of the foreign currency forward contracts, which are classified as Level 2 within the fair value hierarchy. The carrying values of cash equivalents, short-term investments and short-term borrowings are recorded at cost, which approximates their fair values primarily due to their short-term maturities and are classified as Level 2 within the fair value hierarchy. During the three months ended November 30, 2016, the Company did not record any significant nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition.

#### Recently Issued Accounting Standards



In October 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory”, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted in the first interim period of an entity's annual financial statements. The Company has evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments”. The amendments address eight specific cash flow issues to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted and should be applied using a retrospective approach. The Company is in the process of evaluating the potential impacts of this new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments”, which requires entities to estimate all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The updated guidance also expands the disclosure requirements to enable users of financial statements to understand the entity's

assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the potential impacts of this new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". The amendments in this updated guidance include changes to simplify the Codification for several aspects of the accounting for share-based payment transactions, including those related to the income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, minimum statutory withholding requirements and classification of certain items on the statement of cash flows. Certain of these changes are required to be applied retrospectively while other changes are required to be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The Company does not expect that it will adopt this updated guidance early, but it expects that the adoption of this new guidance will have a more than inconsequential impact on the Company's consolidated financial statements. For example, if the Company had adopted this updated guidance in fiscal year 2016, its income tax expense for the year would have been reduced by approximately \$2.1 million due to the recognition of excess tax benefits in the provision for income taxes rather than through additional paid-in-capital. The Company also expects to change its policy related to forfeitures upon adoption of this new guidance such that it will recognize the impacts of forfeitures as they occur rather than recognizing them based on an estimated forfeiture rate. Although the Company is still assessing the impacts of this change in policy for forfeitures on its consolidated financial statements, it does not expect that the impact will be material.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted and should be applied using a modified retrospective approach. The Company is in the process of evaluating the impacts of this new guidance on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". This updated guidance requires management to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern within one year of the date that the financial statements are issued and provide related disclosures if necessary. This guidance is effective for the first annual fiscal period ending after December 15, 2016, and for all interim and annual periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition". The core principle of this updated guidance and related amendments is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new rule also requires additional disclosure about the nature, amount, timing and uncertainty of

revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance was originally to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB approved a one year deferral for the effective date of this guidance. Early adoption is permitted but only to the original effective date. Companies are permitted to adopt this new rule following either a full or modified retrospective approach. The Company does not intend to adopt this guidance early and it will become effective for the Company on September 1, 2018. The Company has not yet decided which implementation method it will adopt. Although management has completed its initial evaluation of this new guidance as it pertains to the Company, it is still in the process of determining the impacts that this updated guidance will have on the Company's consolidated financial statements.

## Note 3. Inventories

Inventories consist primarily of raw materials and components, finished goods, and product held at third-party contract manufacturers. Inventories are stated at the lower of cost or market and cost is determined based on a first-in, first-out method or, for a portion of raw materials inventory, the average cost method. Inventories consisted of the following (in thousands):

|  | November<br>30,<br>2016 | August<br>31,<br>2016 |
|--|-------------------------|-----------------------|
| Product held at third-party contract manufacturers | \$ 3,444                | \$ 3,521              |
| Raw materials and components                       | 3,215                   | 2,996                 |
| Work-in-process                                    | 357                     | 163                   |
| Finished goods                                     | 27,190                  | 25,113                |
| Total  | \$ 34,206               | \$ 31,793             |

## Note 4. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

|   | November<br>30,<br>2016 | August 31,<br>2016 |
|---|-------------------------|--------------------|
| Machinery, equipment and vehicles               | \$ 15,336               | \$ 14,892          |
| Buildings and improvements                      | 4,128                   | 4,223              |
| Computer and office equipment                   | 3,720                   | 3,605              |
| Software  | 7,704                   | 7,392              |
| Furniture and fixtures                          | 1,232                   | 1,286              |
| Capital in progress                             | 12,385                  | 2,200              |
| Land  | 247                     | 254                |
| Subtotal  | 44,752                  | 33,852             |
| Less: accumulated depreciation and amortization | (22,736)                | (22,307)           |
| Total   | \$ 22,016               | \$ 11,545          |

At November 30, 2016, capital in progress on the balance sheet included \$10.8 million associated with the purchase of the Company’s new headquarters office in San Diego in the first quarter of fiscal year 2017. For further information on the Company’s new headquarters office, see the Liquidity and Capital Resources section in Part I—Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Note 5. Goodwill and Other Intangible Assets

Goodwill

The following table summarizes the changes in the carrying amounts of goodwill by segment (in thousands):

|                                 | Americas  | EMEA     | Asia-Pacific | Total     |
|---------------------------------|-----------|----------|--------------|-----------|
| Balance as of August 31, 2016   | \$ 85,452 | \$ 8,987 | \$ 1,210     | \$ 95,649 |
| Translation adjustments         | (24)      | (193)    | -            | (217)     |
| Balance as of November 30, 2016 | \$ 85,428 | \$ 8,794 | \$ 1,210     | \$ 95,432 |

There were no indicators of impairment identified as a result of the Company’s review of events and circumstances related to its goodwill subsequent to February 29, 2016, the date of its most recent annual goodwill impairment test. To date, there have been no impairment losses identified and recorded related to the Company’s goodwill.

## Definite-lived Intangible Assets

The Company's definite-lived intangible assets, which include the 2000 Flushes, Spot Shot, Carpet Fresh, 1001 and GT85 trade names, the Belgium customer list, the GT85 customer relationships and the GT85 technology are included in other intangible assets, net in the Company's condensed consolidated balance sheets. The following table summarizes the definite-lived intangible assets and the related accumulated amortization and impairment (in thousands):

|                          | November<br>30,<br>2016 | August 31,<br>2016 |
|--------------------------|-------------------------|--------------------|
| Gross carrying amount    | \$ 35,543               | \$ 36,009          |
| Accumulated amortization | (17,280)                | (16,818)           |
| Net carrying amount      | \$ 18,263               | \$ 19,191          |

There has been no impairment charge for the three months ended November 30, 2016 as a result of the Company's review of events and circumstances related to its existing definite-lived intangible assets.

Changes in the carrying amounts of definite-lived intangible assets by segment for the three months ended November 30, 2016 are summarized below (in thousands):

|                                 | Americas  | EMEA     | Asia-Pacific | Total     |
|---------------------------------|-----------|----------|--------------|-----------|
| Balance as of August 31, 2016   | \$ 14,913 | \$ 4,278 | \$ -         | \$ 19,191 |
| Amortization expense            | (552)     | (169)    | -            | (721)     |
| Translation adjustments         | -         | (207)    | -            | (207)     |
| Balance as of November 30, 2016 | \$ 14,361 | \$ 3,902 | \$ -         | \$ 18,263 |

The estimated amortization expense for the Company's definite-lived intangible assets in future fiscal years is as follows (in thousands):

|                               | Trade<br>Names | Customer-Based | Technology |
|-------------------------------|----------------|----------------|------------|
| Remainder of fiscal year 2017 | \$ 1,810       | \$ 322         | \$ 24      |
| Fiscal year 2018              | 2,406          | 429            | 32         |
| Fiscal year 2019              | 2,406          | 249            | -          |

|                  |           |          |       |
|------------------|-----------|----------|-------|
| Fiscal year 2020 | 2,012     | 159      | -     |
| Fiscal year 2021 | 1,222     | 159      | -     |
| Thereafter       | 6,874     | 159      | -     |
| Total            | \$ 16,730 | \$ 1,477 | \$ 56 |

Included in the total estimated future amortization expense is the amortization expense for the 1001 trade name and the GT85 intangible assets, which are based on current foreign currency exchange rates, and as a result amounts in future periods may differ from those presented due to fluctuations in those rates.

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## Note 6. Accrued and Other Liabilities

Accrued liabilities consisted of the following (in thousands):

|  | November<br>30,<br>2016 | August<br>31,<br>2016 |
|--|-------------------------|-----------------------|
| Accrued advertising and sales promotion expenses | \$ 8,916                | \$ 9,763              |
| Accrued professional services fees               | 1,090                   | 1,262                 |
| Accrued sales taxes and other taxes              | 1,047                   | 954                   |
| Other  | 4,836                   | 3,778                 |
| Total  | \$ 15,889               | \$ 15,757             |

Accrued payroll and related expenses consisted of the following (in thousands):

|                                | November<br>30,<br>2016 | August<br>31,<br>2016 |
|--------------------------------|-------------------------|-----------------------|
| Accrued incentive compensation | \$ 2,171                | \$ 12,203             |
| Accrued payroll                | 3,980                   | 3,559                 |
| Accrued profit sharing         | 3,407                   | 2,716                 |
| Accrued payroll taxes          | 3,052                   | 1,744                 |
| Other                          | 753                     | 644                   |
| Total                          | \$ 13,363               | \$ 20,866             |

## Note 7. Debt

## Revolving Credit Facility

On June 17, 2011, the Company entered into an unsecured credit agreement with Bank of America, N.A. (“Bank of America”). Since June 17, 2011, this unsecured credit agreement has been amended four times, most recently on September 1, 2016, (the “Fourth Amendment”). This Fourth Amendment amended the credit agreement in connection with the purchase of the Company’s new headquarters office and land located at 9715 Businesspark Avenue, San



Diego, California (the “Property”). The Fourth Amendment permits the Company to spend an aggregate amount not to exceed \$18.0 million for the acquisition and improvement costs for the Property and also includes changes to the agreement that will allow, as a permitted lien, any agreement with Bank of America for secured debt.

Per the terms of the amended agreement, the revolving commitment may not exceed \$175.0 million and the aggregate amount of the Company’s capital stock that it may repurchase may not exceed \$150.0 million during the period from November 16, 2015 to the maturity date of the agreement so long as no default exists immediately prior and after giving effect thereto. This revolving credit facility matures on May 13, 2020, and includes representations, warranties and covenants customary for credit facilities of this type, as well as customary events of default and remedies. In addition, per the terms of the amended agreement, the Company and Bank of America may enter into an autoborrow agreement in form and substance satisfactory to Bank of America, providing for the automatic advance of revolving loans in U.S. Dollars to the Company’s designated account at Bank of America. In the second quarter of fiscal year 2016, the Company entered into an autoborrow agreement with Bank of America and this agreement has been in effect since that time.

For the financial covenants, the definition of consolidated EBITDA includes the add back of non-cash stock-based compensation to consolidated net income when arriving at consolidated EBITDA. The terms of the financial covenants are as follows:

- The consolidated leverage ratio cannot be greater than three to one. The consolidated leverage ratio means, as of any date of determination, the ratio of (a) consolidated funded indebtedness as of such date to (b) consolidated EBITDA for the most recently completed four fiscal quarters.

- The consolidated interest coverage ratio cannot be less than three to one. The consolidated interest coverage ratio means, as of any date of determination, the ratio of (a) consolidated EBITDA for the most recently completed four fiscal quarters to (b) consolidated interest charges for the most recently completed four fiscal quarters.

The Company assesses its ability and intent associated with draws on the line of credit at the end of each reporting period in order to determine the proper balance sheet classification for amounts outstanding on the line of credit. In conjunction with the purchase of the new headquarters office in September 2016, the Company borrowed \$10.0 million on the line of credit which it intends to repay in less than twelve months. In addition, the Company had \$2.4 million in net borrowings outstanding under the autoborrow agreement at November 30, 2016. Since the autoborrow feature provides for borrowings to be made and repaid by the Company on a daily basis, any such borrowings made under an active autoborrow agreement are classified as short-term on the Company's consolidated balance sheets. As a result, the Company has classified \$12.4 million borrowed under the revolving credit facility during the three months ended November 30, 2016 as short-term on its consolidated balance sheets.

Based on management's ability and intent to refinance the remainder of the Company's short-term borrowings under the facility with successive short-term borrowings for a period of at least twelve months, the Company has classified the remaining \$122.0 million outstanding under the revolving credit facility as a long-term liability at November 30, 2016. The Company regularly converts existing draws on its line of credit to new draws with new maturity dates and interest rates. As of November 30, 2016, the Company had a \$134.4 million outstanding balance on the revolving credit facility and was in compliance with all debt covenants under this credit facility.

#### Note 8. Share Repurchase Plans

On June 21, 2016, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective on September 1, 2016, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2018. The timing and amount of repurchases are based on terms and conditions as may be acceptable to the Company's Chief Executive Officer and Chief Financial Officer and in compliance with all laws and regulations applicable thereto. During the period from September 1, 2016 through November 30, 2016, the Company repurchased 112,701 shares at a total cost of \$12.2 million under this \$75.0 million plan.

#### Note 9. Earnings per Common Share

The table below reconciles net income to net income available to common shareholders (in thousands):

|   | Three Months Ended<br>November 30, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| Net income  | \$ 11,758                          | \$ 12,062 |
| Less: Net income allocated to<br>participating securities | (77)                               | (75)      |
| Net income available to common shareholders               | \$ 11,681                          | \$ 11,987 |

The table below summarizes the weighted-average number of common shares outstanding included in the calculation of basic and diluted EPS (in thousands):

|  | Three Months<br>Ended November<br>30, |        |
|--|---------------------------------------|--------|
|  | 2016                                  | 2015   |
| Weighted-average common<br>shares outstanding, basic   | 14,180                                | 14,404 |
| Weighted-average dilutive securities                   | 41                                    | 57     |
| Weighted-average common<br>shares outstanding, diluted | 14,221                                | 14,461 |

For the three months ended November 30, 2016, there were no anti-dilutive stock-based equity awards outstanding. For the three months ended November 30, 2015, weighted-average stock-based equity awards outstanding that are non-participating securities in the amount of 8,030 were excluded from the calculation of diluted EPS under the treasury stock method as they were anti-dilutive.

#### Note 10. Related Parties

On October 11, 2011, the Company's Board of Directors elected Mr. Gregory A. Sandfort as a director of WD-40 Company. Mr. Sandfort is the Chief Executive Officer of Tractor Supply Company ("Tractor Supply"), which is a WD-40 Company customer that acquires products from the Company in the ordinary course of business.

The condensed consolidated financial statements include sales to Tractor Supply of \$0.3 million for the each of the three months ended November 30, 2016 and 2015, respectively. Accounts receivable from Tractor Supply were not material as of November 30, 2016.

#### Note 11. Commitments and Contingencies

##### Purchase Commitments

The Company has ongoing relationships with various suppliers (contract manufacturers) who manufacture the Company's products. The contract manufacturers maintain title to and control of certain raw materials and components, materials utilized in finished products, and the finished products themselves until shipment to the Company's customers or third-party distribution centers in accordance with agreed upon shipment terms. Although the Company typically does not have definitive minimum purchase obligations included in the contract terms with its contract manufacturers, when such obligations have been included, they have been immaterial. In the ordinary course of business, supply needs are communicated by the Company to its contract manufacturers based on orders and short-term projections, ranging from two to five months. The Company is committed to purchase the products produced by the contract manufacturers based on the projections provided.

Upon the termination of contracts with contract manufacturers, the Company obtains certain inventory control rights and is obligated to work with the contract manufacturer to sell through all product held by or manufactured by the contract manufacturer on behalf of the Company during the termination notification period. If any inventory remains at the contract manufacturer at the termination date, the Company is obligated to purchase such inventory which may include raw materials, components and finished goods. The amounts for inventory purchased under termination commitments have been immaterial.

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation and renovation initiatives and/or supply chain initiatives. As of November 30, 2016, no such commitments were outstanding.

## Litigation

From time to time, the Company is subject to various claims, lawsuits, investigations and proceedings arising in the ordinary course of business, including but not limited to, product liability litigation and other claims and proceedings with respect to intellectual property, breach of contract, labor and employment, tax and other matters. As of November 30, 2016, there is no current proceeding or litigation involving the Company that management believes could have a material adverse impact on its business, financial condition and results of operations. For further information on the risks the Company faces from existing and future claims, suits, investigations and proceedings, see the Company's risk factors disclosed in Part I Item 1A, "Risk Factors," in its Annual Report on Form 10-K for the fiscal year ended August 31, 2016, which was filed with the SEC on October 24, 2016.

## Indemnifications

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. Thus, no liabilities have been recorded for these agreements as of November 30, 2016.

From time to time, the Company enters into indemnification agreements with certain contractual parties in the ordinary course of business, including agreements with lenders, lessors, contract manufacturers, marketing distributors, customers and certain vendors. All such indemnification agreements are entered into in the context of the particular agreements and are provided in an attempt to properly allocate risk of loss in connection with the consummation of the underlying contractual arrangements. Although the maximum amount of future payments that the Company could be required to make under these indemnification agreements is unlimited, management believes that the Company maintains adequate levels of insurance coverage to protect the Company with respect to most potential claims arising from such agreements and that such agreements do not otherwise have value separate and apart from the liabilities incurred in the ordinary course of the Company's business. Thus, no liabilities have been recorded with respect to such indemnification agreements as of November 30, 2016.

## Note 12. Income Taxes

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

The provision for income taxes was 28.3% and 28.5% of income before income taxes for the three months ended November 30, 2016 and 2015, respectively. The slight decrease in the effective income tax rate from period to period was primarily driven by a favorable mix of taxable earnings from foreign operations which are taxed at lower rates.

The Company is subject to taxation in the U.S. and in various state and foreign jurisdictions. Due to expired statutes, the Company's federal income tax returns for years prior to fiscal year 2014 are not subject to examination by the U.S. Internal Revenue Service. The Company was recently notified by the U.S. Internal Revenue Service of its plans to perform an income tax audit for the tax period ended August 31, 2015. The Company is also currently under audit in various state and local jurisdictions for fiscal years 2013 through 2015. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2013 are no longer subject to examination. The Company has estimated that up to \$0.2 million of unrecognized tax benefits related to income tax

positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

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## Note 13. Business Segments and Foreign Operations

The Company evaluates the performance of its segments and allocates resources to them based on sales and operating income. The Company is organized on the basis of geographical area into the following three segments: the Americas; EMEA; and Asia-Pacific. Segment data does not include inter-segment revenues. Unallocated corporate expenses are general corporate overhead expenses not directly attributable to the operating segments and are reported separate from the Company's identified segments. The corporate overhead costs include expenses for the Company's accounting and finance, information technology, human resources, research and development, quality control and executive management functions, as well as all direct costs associated with public company compliance matters including legal, audit and other professional services costs.

Summary information about reportable segments is as follows (in thousands):

| For the Three Months Ended               | Americas  | EMEA      | Asia-Pacific | Unallocated<br>Corporate<br>(1) | Total     |
|--|-----------|-----------|--------------|---------------------------------|-----------|
| November 30, 2016:                       |           |           |              |                                 |           |
| Net sales                                | \$ 42,840 | \$ 30,257 | \$ 16,151    | \$ -                            | \$ 89,248 |
| Income from operations                   | \$ 10,749 | \$ 7,178  | \$ 4,986     | \$ (6,397)                      | \$ 16,516 |
| Depreciation and<br>amortization expense | \$ 1,049  | \$ 501    | \$ 62        | \$ 8                            | \$ 1,620  |
| Interest income                          | \$ 2      | \$ 80     | \$ 65        | \$ -                            | \$ 147    |
| Interest expense                         | \$ 527    | \$ -      | \$ 4         | \$ -                            | \$ 531    |
| November 30, 2015:                       |           |           |              |                                 |           |
| Net sales                                | \$ 44,412 | \$ 32,086 | \$ 16,024    | \$ -                            | \$ 92,522 |
| Income from operations                   | \$ 10,860 | \$ 6,715  | \$ 5,123     | \$ (5,553)                      | \$ 17,145 |
| Depreciation and<br>amortization expense | \$ 1,080  | \$ 510    | \$ 64        | \$ 7                            | \$ 1,661  |
| Interest income                          | \$ 2      | \$ 103    | \$ 43        | \$ -                            | \$ 148    |
| Interest expense                         | \$ 369    | \$ -      | \$ 3         | \$ -                            | \$ 372    |

(1) Unallocated corporate expenses are general corporate overhead expenses not directly attributable to any one of the operating segments. These expenses are reported separate from the Company's identified segments and are included in Selling, General and Administrative expenses on the Company's condensed consolidated statements of operations.

The Company's Chief Operating Decision Maker does not review assets by segment as part of the financial information provided and therefore, no asset information is provided in the above table.



Net sales by product group are as follows (in thousands):

|                                | Three Months Ended |           |
|--------------------------------|--------------------|-----------|
|                                | November 30,       |           |
|                                | 2016               | 2015      |
| Maintenance products           | \$ 79,159          | \$ 82,241 |
| Homecare and cleaning products | 10,089             | 10,281    |
| Total                          | \$ 89,248          | \$ 92,522 |

Note 14. Subsequent Events

On December 13, 2016, the Company's Board of Directors approved a 17% increase in the regular quarterly cash dividend, increasing it from \$0.42 per share to \$0.49 per share. The \$0.49 per share dividend declared on December 13, 2016 is payable on January 31, 2017 to shareholders of record on January 20, 2017.

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

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

The following information is provided as a supplement to, and should be read in conjunction with, the unaudited condensed consolidated financial statements and notes thereto included in Part I Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, which was filed with the Securities and Exchange Commission ("SEC") on October 24, 2016.

In order to show the impact of changes in foreign currency exchange rates on our results of operations, we have included constant currency disclosures, where necessary, in the Overview and Results of Operations sections which follow. Constant currency disclosures represent the translation of our current fiscal year revenues and expenses from the functional currencies of our subsidiaries to U.S. dollars using the exchange rates in effect for the corresponding period of the prior fiscal year. We use results on a constant currency basis as one of the measures to understand our operating results and evaluate our performance in comparison to prior periods. Results on a constant currency basis are not in accordance with accounting principles generally accepted in the United States of America ("non-GAAP") and should be considered in addition to, not as a substitute for, results prepared in accordance with GAAP.

Forward-Looking Statements

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

These forward-looking statements include, but are not limited to, discussions about future financial and operating results, including: growth expectations for maintenance products; expected levels of promotional and advertising spending; plans for and success of product innovation, the impact of new product introductions on the growth of sales; anticipated results from product line extension sales; and forecasted foreign currency exchange rates and commodity prices. These forward-looking statements are generally identified with words such as "believe," "expect," "intend," "plan," "could," "may," "aim," "anticipate," "estimate" and similar expressions. The Company undertakes no obligation to revise or update any forward looking statements.

Actual events or results may differ materially from those projected in forward-looking statements due to various factors, including, but not limited to, those identified in Part I Item 1A, "Risk Factors," in the Company's Annual Report

on Form 10-K for the fiscal year ended August 31, 2016, and in the Company's Quarterly Reports on Form 10-Q, which may be updated from time to time.

## Overview

## The Company

WD-40 Company ("the Company"), based in San Diego, California, is a global marketing organization dedicated to creating positive lasting memories by developing and selling products which solve problems in workshops, factories and homes around the world. We market our maintenance products and our homecare and cleaning products under the following well-known brands: WD-40®, 3-IN-ONE®, GT85®, X-14®, 2000 Flushes®, Carpet Fresh®, no vac®, Spot Shot®, 1001®, Lava® and Solvol®. Currently included in the WD-40 brand are the WD-40 multi-use product and the WD-40 Specialist® and WD-40 BIKE® product lines.

Our brands are sold in various locations around the world. Maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the United Kingdom ("U.K.") and Australia. We sell our products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets, sport retailers, independent bike dealers, online retailers and industrial distributors and suppliers.

## Highlights

The following summarizes the financial and operational highlights for our business during the three months ended November 30, 2016:

- Consolidated net sales decreased \$3.3 million for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact of \$5.9 million on consolidated net sales for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Thus, on a constant currency basis, net sales would have increased by \$2.6 million from period to period. This unfavorable impact from changes in foreign currency exchange rates mainly came from our EMEA segment, which accounted for 34% of our consolidated sales for the three months ended November 30, 2016.
- Consolidated net sales for the WD-40 Specialist product line were \$5.8 million which is a 36% increase for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Although the WD-40 Specialist product line is expected to provide the Company with long-term growth opportunities, we will see some volatility in sales levels from period to period due to the timing of promotional programs, the building of distribution, and various other factors that come with building a new product line.
- Gross profit as a percentage of net sales increased to 57.2% for the three months ended November 30, 2016 compared to 55.6% for the corresponding period of the prior fiscal year.
- Consolidated net income decreased \$0.3 million, or 3%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact of \$1.1 million on consolidated net income for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Thus, on a constant currency basis, net income would have increased \$0.8 million.
- Diluted earnings per common share for the three months ended November 30, 2016 were \$0.82 versus \$0.83 in the prior fiscal year period.
- Share repurchases were executed under our current \$75.0 million share buy-back plan, which was approved by the Company's Board of Directors in June 2016 and became effective on September 1, 2016. During the period from September 1, 2016 through November 30, 2016, the Company repurchased 112,701 shares at an average price of \$107.84 per share, for a total cost of \$12.2 million.

Our strategic initiatives and the areas where we will continue to focus our time, talent and resources in future periods include: (i) maximizing WD-40 multi-use product sales through geographic expansion and increased market penetration; (ii) leveraging the WD-40 brand by growing the WD-40 Specialist product line; (iii) leveraging the strengths of the Company through broadened product and revenue base; (iv) attracting, developing and retaining talented people; and (v) operating with excellence.



## Results of Operations

Three Months Ended November 30, 2016 Compared to Three Months Ended November 30, 2015

## Operating Items

The following table summarizes operating data for our consolidated operations (in thousands, except percentages and per share amounts):

|   | Three Months Ended November 30, |           | Change from |         |
|---|---------------------------------|-----------|-------------|---------|
|   | 2016                            | 2015      | Prior Year  | Percent |
|   |                                 |           | Dollars     |         |
| Net sales:                                      |                                 |           |             |         |
| Maintenance products                            | \$ 79,159                       | \$ 82,241 | \$ (3,082)  | (4)%    |
| Homecare and cleaning products                  | 10,089                          | 10,281    | (192)       | (2)%    |
| Total net sales                                 | 89,248                          | 92,522    | (3,274)     | (4)%    |
| Cost of products sold                           | 38,208                          | 41,114    | (2,906)     | (7)%    |
| Gross profit                                    | 51,040                          | 51,408    | (368)       | (1)%    |
| Operating expenses                              | 34,524                          | 34,263    | 261         | 1%      |
| Income from operations                          | \$ 16,516                       | \$ 17,145 | \$ (629)    | (4)%    |
| Net income                                      | \$ 11,758                       | \$ 12,062 | \$ (304)    | (3)%    |
| Earnings per common share - diluted             | \$ 0.82                         | \$ 0.83   | \$ (0.01)   | (1)%    |
| Shares used in per share calculations - diluted | 14,221                          | 14,461    | (240)       | (2)%    |

## Net Sales by Segment

The following table summarizes net sales by segment (in thousands, except percentages):

|              | Three Months Ended November 30, |           | Change from |         |
|--------------|---------------------------------|-----------|-------------|---------|
|              | 2016                            | 2015      | Prior Year  | Percent |
|              |                                 |           | Dollars     |         |
| Americas     | \$ 42,840                       | \$ 44,412 | \$ (1,572)  | (4)%    |
| EMEA         | 30,257                          | 32,086    | (1,829)     | (6)%    |
| Asia-Pacific | 16,151                          | 16,024    | 127         | 1%      |
| Total        | \$ 89,248                       | \$ 92,522 | \$ (3,274)  | (4)%    |



## Americas

The following table summarizes net sales by product line for the Americas segment (in thousands, except percentages):

|                                | Three Months Ended November 30, |           | Change from |         |
|--------------------------------|---------------------------------|-----------|-------------|---------|
|                                | 2016                            | 2015      | Prior Year  |         |
|                                |                                 |           | Dollars     | Percent |
| Maintenance products           | \$ 35,875                       | \$ 37,063 | \$ (1,188)  | (3)%    |
| Homecare and cleaning products | 6,965                           | 7,349     | (384)       | (5)%    |
| Total                          | \$ 42,840                       | \$ 44,412 | \$ (1,572)  | (4)%    |
| % of consolidated net sales    | 48%                             | 48%       |             |         |

Sales in the Americas segment, which includes the U.S., Canada and Latin America, decreased to \$42.8 million, down \$1.6 million, or 4%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates did not have a material impact on sales for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year.

Sales of maintenance products in the Americas segment decreased \$1.2 million, or 3%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. This sales decrease was mainly driven by lower sales of maintenance products in Latin America and the U.S., which decreased 6% and 3%, respectively, primarily due to a lower level of promotional activities in these regions and the timing of customer orders for the WD-40 multi-use product from period to period. Sales of maintenance products in Latin America were also lower in the first quarter of the current fiscal year due to the uncertain business climate which currently exists in Mexico. In addition, sales of maintenance products in the U.S. in the first quarter of last fiscal year were higher than normal due to the initial launch of the WD-40 EZ Reach Flexible Straw product. The decreased sales in these regions were partially offset by higher sales of the WD-40 Specialist product line in the Americas segment, which were up \$0.7 million, or 27%, from period to period due to new distribution, particularly of certain new products within this product line during the three months ended November 30, 2016.

Sales of homecare and cleaning products in the Americas decreased \$0.4 million, or 5%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. This sales decrease was driven primarily by a decrease in sales of Carpet Fresh products and Spot Shot carpet stain remover, most of which is related to the U.S., of 12% and 6%, respectively. While each of our homecare and cleaning products continue to generate positive cash flows, we have continued to experience decreased or flat sales for many of these products primarily due to lost distribution, reduced product offerings, competition, category declines and the volatility of orders from and promotional programs with certain of our customers, particularly those in the warehouse club and mass retail channels. At November 30, 2016, the carrying value of definite-lived intangible assets associated with the Company's



trade names for the homecare and cleaning products was \$16.2 million, of which \$9.1 million and \$1.2 million were associated with the Spot Shot and Carpet Fresh trade names, respectively.

For the Americas segment, 81% of sales came from the U.S., and 19% of sales came from Canada and Latin America combined for both the three months ended November 30, 2016 and 2015.

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## EMEA

The following table summarizes net sales by product line for the Europe segment (in thousands, except percentages):

|                                | Three Months Ended November 30, |           | Change from |         |
|--------------------------------|---------------------------------|-----------|-------------|---------|
|                                | 2016                            | 2015      | Prior Year  | Percent |
| Maintenance products           | \$ 28,938                       | \$ 30,742 | \$ (1,804)  | (6)%    |
| Homecare and cleaning products | 1,319                           | 1,344     | (25)        | (2)%    |
| Total (1)                      | \$ 30,257                       | \$ 32,086 | \$ (1,829)  | (6)%    |
| % of consolidated net sales    | 34%                             | 35%       |             |         |

(1) While the Company's reporting currency is U.S. Dollar, the functional currency of our U.K. subsidiary, the legal entity in which the EMEA results are generated, is Pound Sterling. Although the functional currency of this subsidiary is Pound Sterling, approximately 45% of its sales are generated in Euro and 25% are generated in U.S. Dollar. As a result, the Pound Sterling sales and earnings for the EMEA segment can be negatively or positively impacted from period to period upon translation from these currencies depending on whether the Euro and U.S. Dollar are weakening or strengthening against the Pound Sterling.

Sales in the EMEA segment, which includes Europe, the Middle East, Africa and India, decreased to \$30.3 million, down \$1.8 million, or 6%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact on sales for the EMEA segment from period to period. Sales for the three months ended November 30, 2016 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been \$36.3 million in the EMEA segment. Thus, on a constant currency basis, sales would have increased by \$4.2 million, or 13%, from period to period.

The countries in Europe where we sell through a direct sales force include the U.K., Italy, France, Iberia (which includes Spain and Portugal) and the Germanics sales region (which includes Germany, Austria, Denmark, Switzerland, Belgium and the Netherlands). Overall, sales from direct markets increased \$0.6 million, or 3%, for the three months November 30, 2016 compared to the corresponding period of the prior fiscal year. We experienced sales increases throughout most of the EMEA direct markets for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year, with percentage increases in sales as follows: Italy, 18%; Iberia, 15%; France, 9%; and the Germanics region, 5%. Although sales in these Euro-based direct markets benefited from the strengthening of the Euro against the Pound Sterling, the functional currency of our U.K. subsidiary, they were almost equally impacted in the opposite direction as a result of the weakening of the Pound Sterling against the U.S. Dollar from period to period. The increased sales in these regions were partially offset by a sales decrease of 11% in the U.K. which was completely due to the unfavorable impacts of changes in foreign currency exchange rates from

period to period. In Pound Sterling, sales in the U.K. market increased 7% due to higher sales levels for the WD-40 multi-use product and the 1001 brand products. Also contributing to the overall sales increase in the direct markets were increased sales of the WD-40 Specialist product line of \$0.4 million, or 38%, from period to period due to expanded distribution. Sales from direct markets accounted for 66% of the EMEA segment's sales for the three months ended November 30, 2016 compared to 61% of the EMEA segment's sales for the corresponding period of the prior fiscal year.

The regions in the EMEA segment where we sell through local distributors include the Middle East, Africa, India, Eastern and Northern Europe. Sales in the distributor markets decreased \$2.4 million, or 19%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year primarily due to a decrease of 36% in sales in Russia as a result of the timing of customer orders for the WD-40 multi-use product from period to period. The distributor markets accounted for 34% of the EMEA segment's total sales for the three months ended November 30, 2016, compared to 39% for the corresponding period of the prior fiscal year.

## Asia-Pacific

The following table summarizes net sales by product line for the Asia-Pacific segment (in thousands, except percentages):

|                                | Three Months Ended November 30, |           | Change from |         |
|--------------------------------|---------------------------------|-----------|-------------|---------|
|                                | 2016                            | 2015      | Dollars     | Percent |
| Maintenance products           | \$ 14,347                       | \$ 14,436 | \$ (89)     | (1)%    |
| Homecare and cleaning products | 1,804                           | 1,588     | 216         | 14%     |
| Total                          | \$ 16,151                       | \$ 16,024 | \$ 127      | 1%      |
| % of consolidated net sales    | 18%                             | 17%       |             |         |

Sales in the Asia-Pacific segment, which includes Australia, China and other countries in the Asia region, increased to \$16.1 million, up \$0.1 million, or 1%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates did not have a material impact on sales for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year.

Sales in Asia, which represented 73% of the total sales in the Asia-Pacific segment, decreased \$0.5 million, or 4%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Sales in the Asia distributor markets decreased \$0.7 million, or 8%, primarily attributable to a lower level of promotional activities and the timing of customer orders for the WD-40 multi-use product in the Asian distributor markets, particularly those in Indonesia, South Korea, Malaysia and the Philippines, from period to period. Sales were also lower in the Asian distributor markets in the first quarter of fiscal year 2017 due to certain customers buying product in advance of a price increase that took place at the end of the first quarter of fiscal year 2016. Sales in China increased \$0.2 million, or 8%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact on sales in China. On a constant currency basis, sales would have increased 14% from period to period primarily due to new distribution and increased promotional activities from period to period.

Sales in Australia increased \$0.6 million, or 16%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had a favorable impact on sales in Australia. On a constant currency basis, sales would have increased 8% from period to period primarily due to increased distribution and higher sales levels resulting from successful promotional programs as well as continued growth of our base business.

## Gross Profit

Gross profit decreased to \$51.0 million for the three months ended November 30, 2016 compared to \$51.4 million for the corresponding period of the prior fiscal year. As a percentage of net sales, gross profit increased to 57.2% for the

three months ended November 30, 2016 compared to 55.6% for the corresponding period of the prior fiscal year.

Although the net changes in the costs of petroleum-based specialty chemicals and aerosol cans did not have an impact on the overall gross margin, we experienced positive net impacts on gross margin from these costs in our Americas and Asia Pacific segments, which were fully offset by unfavorable net impacts in our EMEA segment. The unfavorable impacts in our EMEA segment were primarily due to increased costs of petroleum-based specialty chemicals from period to period. While the costs of petroleum-based specialty chemicals for our EMEA segment are sourced in Pound Sterling, the underlying inputs are denominated in U.S. Dollars. As a result, the overall strengthening of the U.S. Dollar against the Pound Sterling from period to period resulted in a significant increase in cost of goods in Pound Sterling. There is often a delay of one quarter or more before changes in raw material costs impact cost of products sold due to production and inventory life cycles. Due to the volatility of the price of crude oil, it is uncertain the level to which gross margin will be impacted by such costs in future periods. The combined effects of favorable sales mix changes and other miscellaneous costs positively impacted gross margin by 0.5 percentage points primarily due to a favorable shift in product mix as a result of a higher portion of sales in the EMEA segment being made of higher margin maintenance products from period to period. In addition, changes in foreign currency exchange rates positively impacted gross margin by 1.6 percentage points primarily due to the fluctuations in the exchange rates for the Euro and U.S. Dollar against the Pound Sterling in our EMEA segment from period to period. In the EMEA

segment, the majority of our cost of goods sold is denominated in Pound Sterling whereas sales are generated in Pound Sterling, Euro and the U.S. Dollar. The combined effect of the strengthening of both the Euro and U.S. Dollar against the Pound Sterling from period to period caused an increase in our Pound Sterling sales, resulting in favorable impacts to the gross margin. Gross margin was also positively impacted by 0.1 percentage points from period to period primarily due to sales price increases implemented in the EMEA segment over the last twelve months.

These favorable impacts to gross margin were partially offset by 0.3 percentage points due to higher warehousing and in-bound freight costs, particularly in the Americas segment from period to period. Advertising, promotional and other discounts that we give to our customers also increased from period to period which negatively impacted gross margin by 0.3 percentage points. In general, the timing of advertising, promotional and other discounts may cause fluctuations in gross margin from period to period. The costs associated with certain promotional activities are recorded as a reduction to sales while others are recorded as advertising and sales promotion expenses. Advertising, promotional and other discounts that are given to our customers are recorded as a reduction to sales, whereas advertising and sales promotional costs associated with promotional activities that we pay to third parties are recorded as advertising and sales promotion expenses.

Note that our gross profit and gross margin may not be comparable to those of other consumer product companies, since some of these companies include all costs related to distribution of their products in cost of products sold, whereas we exclude the portion associated with amounts paid to third parties for shipment to our customers from our distribution centers and contract manufacturers and include these costs in selling, general and administrative expenses. These costs totaled \$3.8 million for each of the three months ended November 30, 2016 and 2015, respectively.

#### Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses for the three months ended November 30, 2016 increased \$1.2 million, or 4%, to \$29.0 million from \$27.8 million for the corresponding period of the prior fiscal year. As a percentage of net sales, SG&A expenses increased to 32.5% for the three months ended November 30, 2016 from 30.1% for the corresponding period of the prior fiscal year. The increase in SG&A expenses was primarily attributable to higher employee-related costs, a higher level of expenses associated with travel and meetings, higher costs associated with new product development and increased freight costs. Employee-related costs, which include salaries, incentive compensation, profit sharing, stock-based compensation and other fringe benefits, increased by \$1.4 million. This increase was primarily due to higher stock-based compensation expense as a result of the acceleration of expense for certain equity awards granted during the first quarter of fiscal year 2017 under updated equity award agreements that include expanded accelerated vesting provisions in the event of retirement of the award recipients. These increases were partially offset by lower earned incentive compensation from period to period. Travel and meeting expenses increased \$0.5 million due to a higher level of travel expenses associated with various sales meetings and activities in support of our strategic initiatives. The \$0.4 million increase in new product development expenses was primarily due to an increased level of spending from period to period related to the continued development of our products within the WD-40 brand, particularly in the Americas segment. Freight costs associated with shipping products to our customers increased \$0.3 million primarily due to higher sales volumes in the EMEA segment from period to period as well as additional costs associated with the shift in the distribution model for the do-it-yourself (DIY) channel that we made in the Germanics region which has resulted in us selling to various retail customers directly rather than through a large wholesale customer. Other miscellaneous expenses, which primarily include

general office overhead, sales commissions and depreciation expense, increased by \$0.3 million period over period. These increases were partially offset by changes in foreign currency exchange rates, which had a favorable impact of \$1.7 million on SG&A expenses for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year.

We continued our research and development investment, the majority of which is associated with our maintenance products, in support of our focus on innovation and renovation of our products. Research and development costs were \$2.1 million and \$1.8 million for the three months ended November 30, 2016 and 2015, respectively. Our research and development team engages in consumer research, product development, current product improvement and testing activities. This team leverages its development capabilities by partnering with a network of outside resources including our current and prospective outsource suppliers. The level and types of expenses incurred within research and development can vary from period to period depending upon the types of activities being performed.

## Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses for the three months ended November 30, 2016 decreased \$0.9 million, or 15%, to \$4.8 million from \$5.7 million for the corresponding period of the prior fiscal year. As a percentage of net sales, these expenses decreased to 5.4% for the three months ended November 30, 2016 from 6.1% for the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had a favorable impact on such expenses of \$0.4 million from period to period. Thus, on a constant currency basis, advertising and sales promotion expenses for fiscal year 2016 would have decreased by \$0.5 million, primarily due to a lower level of promotional programs and marketing support in the Americas segment from period to period. Investment in global advertising and sales promotion expenses for fiscal year 2017 is expected to be near 6.0% of net sales.

As a percentage of net sales, advertising and sales promotion expenses may fluctuate period to period based upon the type of marketing activities we employ and the period in which the costs are incurred. Total promotional costs recorded as a reduction to sales for the three months ended November 30, 2016 were \$4.0 million compared to \$3.7 million for the corresponding period of the prior fiscal year. Therefore, our total investment in advertising and sales promotion activities totaled \$8.8 million and \$9.4 million for the three months ended November 30, 2016 and 2015, respectively.

## Amortization of Definite-lived Intangible Assets Expense

Amortization of our definite-lived intangible assets remained relatively constant at \$0.7 million and \$0.8 million for the three months ended November 30, 2016 and 2015, respectively.

## Income from Operations by Segment

The following table summarizes income from operations by segment (in thousands, except percentages):

|                           | Three Months Ended November 30, |           | Change from |         |
|---------------------------|---------------------------------|-----------|-------------|---------|
|                           | 2016                            | 2015      | Dollars     | Percent |
| Americas                  | \$ 10,749                       | \$ 10,860 | \$ (111)    | (1)%    |
| EMEA                      | 7,178                           | 6,715     | 463         | 7%      |
| Asia-Pacific              | 4,986                           | 5,123     | (137)       | (3)%    |
| Unallocated corporate (1) | (6,397)                         | (5,553)   | (844)       | 15%     |



\$ 16,516 \$ 17,145 \$ (629) (4)%

- (1) Unallocated corporate expenses are general corporate overhead expenses not directly attributable to any one of the operating segments. These expenses are reported separate from the Company's identified segments and are included in Selling, General and Administrative expenses on the Company's condensed consolidated statements of operations.

#### Americas

Income from operations for the Americas decreased to \$10.7 million, down \$0.1 million, or 1%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year, primarily due to a \$1.6 decrease in sales, which was partially offset by a higher gross margin. As a percentage of net sales, gross profit for the Americas segment increased from 55.3% to 55.8% period over period. This increase in the gross margin was primarily due to the combined positive impacts of decreased costs of petroleum-based specialty chemicals and aerosol cans, which were mostly offset by higher warehousing and in-bound freight costs as well as unfavorable sales mix changes from period to period. The lower sales were accompanied by a \$0.6 million decrease in total operating expenses period over period, most of which related to lower advertising and sales promotion expenses. Operating income as a percentage of net sales increased from 24.5% to 25.1% period over period.

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## EMEA

Income from operations for the EMEA segment increased to \$7.2 million, up \$0.5 million, or 7%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year, primarily due to a higher gross margin and lower operating expenses, both of which were almost completely offset by a \$1.8 million decrease in sales. As a percentage of net sales, gross profit for the EMEA segment increased from 57.0% to 60.4% period over period primarily due to favorable sales mix changes and fluctuations in foreign currency exchange rates. These favorable impacts were partially offset by the combined negative impacts of costs of petroleum-based specialty chemicals and aerosol cans in our EMEA segment. Operating expenses decreased \$0.5 million period over period, most of which related to lower earned incentive compensation expenses. Operating income as a percentage of net sales increased from 20.9% to 23.7% period over period.

## Asia-Pacific

Income from operations for the Asia-Pacific segment decreased to \$5.0 million, down \$0.1 million, or 3%, for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year, primarily due to a \$0.4 million increase in total operating expenses, which was almost completely offset by a higher gross margin. As a percentage of net sales, gross profit for the Asia-Pacific segment increased from 53.4% to 54.8% period over period due to the combined positive impacts of decreased costs of petroleum-based specialty chemicals and aerosol cans and favorable sales mix changes, both of which were slightly offset by a higher level of advertising, promotional and other discounts that we gave to our customers from period to period. Operating income as a percentage of net sales decreased from 32.0% to 30.9% period over period.

## Non-Operating Items

The following table summarizes non-operating income and expenses for our consolidated operations (in thousands):

|                             | Three Months Ended |          |          |
|-----------------------------|--------------------|----------|----------|
|                             | November 30,       |          |          |
|                             | 2016               | 2015     | Change   |
| Interest income             | \$ 147             | \$ 148   | \$ (1)   |
| Interest expense            | \$ 531             | \$ 372   | \$ 159   |
| Other income (expense), net | \$ 264             | \$ (51)  | \$ 315   |
| Provision for income taxes  | \$ 4,638           | \$ 4,808 | \$ (170) |

## Interest Income

Interest income remained constant for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year.

#### Interest Expense

Interest expense increased \$0.2 million for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year primarily due to higher interest rates and an increased outstanding balance on our revolving credit facility period over period.

#### Other Income (Expense), Net

Other income (expense), net changed by \$0.3 million for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year primarily due to net foreign currency exchange gains which were recorded for the three months ended November 30, 2016 compared to net foreign currency exchange losses which were recorded in the prior fiscal quarter as a result of significant fluctuations in the foreign currency exchange rates for both the Euro and the U.S. Dollar against the Pound Sterling.

## Provision for Income Taxes

The provision for income taxes was 28.3% and 28.5% of income before income taxes for the three months ended November 30, 2016 and 2015, respectively. The slight decrease in the effective income tax rate from period to period was primarily driven by a favorable mix of taxable earnings from foreign operations which are taxed at lower rates.

## Net Income

Net income was \$11.8 million, or \$0.82 per common share on a fully diluted basis for the three months ended November 30, 2016 compared to \$12.1 million, or \$0.83 per common share on a fully diluted basis for the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact of \$1.1 million on net income for the three months ended November 30, 2016 compared to the corresponding period of the prior fiscal year. Thus, on a constant currency basis, net income would have increased by \$0.8 million from period to period.

## Performance Measures and Non-GAAP Reconciliations

In managing our business operations and assessing our financial performance, we supplement the information provided by our financial statements with certain non-GAAP performance measures. These performance measures are part of our current 55/30/25 business model, which includes gross margin, cost of doing business, and earnings before interest, income taxes, depreciation and amortization (“EBITDA”), the latter two of which are non-GAAP performance measures. Cost of doing business is defined as total operating expenses less amortization of definite-lived intangible assets, impairment charges related to intangible assets and depreciation in operating departments, and EBITDA is defined as net income (loss) before interest, income taxes, depreciation and amortization. We target our gross margin to be above 55% of net sales, our cost of doing business to be at or below 30% of net sales, and our EBITDA to be above 25% of net sales. Results for these performance measures may vary from period to period depending on various factors, including economic conditions and our level of investment in activities for the future such as those related to quality assurance, regulatory compliance, and intellectual property protection in order to safeguard our WD-40 brand. The targets for these performance measures are long-term in nature, particularly those for cost of doing business and EBITDA, and we expect to make progress towards achieving them over time as our revenues increase.

The following table summarizes the results of these performance measures for the periods presented:

|  | Three Months<br>Ended<br>November 30, |      |
|--|---------------------------------------|------|
|  | 2016                                  | 2015 |
| Gross margin - GAAP  | 57%                                   | 56%  |
| Cost of doing business as a percentage of net sales - non-GAAP | 37%                                   | 35%  |
| EBITDA as a percentage of net sales - non-GAAP (1)             | 21%                                   | 20%  |

(1) Percentages may not aggregate to EBITDA percentage due to rounding and because amounts recorded in other income (expense), net on the Company’s consolidated statement of operations are not included as an adjustment to earnings in the EBITDA calculation.

We use the performance measures above to establish financial goals and to gain an understanding of the comparative performance of the Company from period to period. We believe that these measures provide our shareholders with additional insights into the Company’s results of operations and how we run our business. The non-GAAP financial measures are supplemental in nature and should not be considered in isolation or as alternatives to net income, income from operations or other financial information prepared in accordance with GAAP as indicators of the Company’s

performance or operations. The use of any non-GAAP measure may produce results that vary from the GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies. Reconciliations of these non-GAAP financial measures to our financial statements as prepared in accordance with GAAP are as follows:

Cost of Doing Business (in thousands, except percentages)

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | November 30,       |           |
|  | 2016               | 2015      |
| Total operating expenses - GAAP                                | \$ 34,524          | \$ 34,263 |
| Amortization of definite-lived intangible assets               | (721)              | (755)     |
| Depreciation (in operating departments)                        | (679)              | (687)     |
| Cost of doing business   | \$ 33,124          | \$ 32,821 |
| Net sales  | \$ 89,248          | \$ 92,522 |
| Cost of doing business as a percentage of net sales - non-GAAP | 37%                | 35%       |

EBITDA (in thousands, except percentages)

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | November 30,       |           |
|  | 2016               | 2015      |
| Net income - GAAP                                | \$ 11,758          | \$ 12,062 |
| Provision for income taxes                       | 4,638              | 4,808     |
| Interest income                                  | (147)              | (148)     |
| Interest expense                                 | 531                | 372       |
| Amortization of definite-lived intangible assets | 721                | 755       |
| Depreciation                                     | 899                | 906       |
| EBITDA   | \$ 18,400          | \$ 18,755 |
| Net sales  | \$ 89,248          | \$ 92,522 |
| EBITDA as a percentage of net sales - non-GAAP   | 21%                | 20%       |

## Liquidity and Capital Resources

### Overview

The Company's financial condition and liquidity remain strong. Net cash provided by operations was \$13.5 million for the three months ended November 30, 2016 compared to \$14.6 million for the corresponding period of the prior fiscal year. We believe we continue to be well positioned to weather any uncertainty in the capital markets and global economy due to our strong balance sheet and efficient business model, along with our growing and diversified global revenues. We continue to manage all aspects of our business including, but not limited to, monitoring the financial health of our customers, suppliers and other third-party relationships, implementing gross margin enhancement strategies and developing new opportunities for growth.

Our principal sources of liquidity are our existing cash and cash equivalents, short-term investments, cash generated from operations and cash currently available from our existing \$175.0 million revolving credit facility with Bank of America, N.A. ("Bank of America"), which expires on May 13, 2020. To date, we have used the proceeds of the revolving credit facility for our stock repurchases and plan to continue using such proceeds for our general working capital needs and stock repurchases under our board approved share buy-back plan. The Company also utilized this revolving credit facility in September 2016 to fund the purchase of its new headquarters office, which will house both corporate employees and employees in the Company's Americas segment. During three months ended November 30, 2016, we had net new borrowings of \$12.4 million U.S. dollars under the revolving credit facility. We regularly

convert the vast majority of our draws on our line of credit to new draws with new maturity dates and interest rates. As of November 30, 2016, we had a \$134.4 million outstanding balance on the revolving credit facility, of which \$122.0 million was classified as long-term and \$12.4 million was classified as short-term. There were no other letters of credit outstanding or restrictions on the amount available on this line of credit. Per the terms of the revolving credit facility agreement, our consolidated leverage ratio cannot be greater than three to one and our consolidated interest coverage ratio cannot be less than three to one. See Note 7 – Debt for additional information on these financial covenants. At November 30, 2016, we were in compliance with all debt covenants as required by the revolving credit facility and believe it is unlikely we will fail to comply with any of these covenants over the next twelve months. We would need to have a significant decrease in sales and/or a significant increase in expenses in order for us to not comply with the debt covenants.

At November 30, 2016, we had a total of \$100.8 million in cash and cash equivalents and short-term investments. Of this balance, \$96.8 million was held in Europe, Australia and China in foreign currencies. It is our intention to indefinitely reinvest the cumulative unremitted earnings at these locations in order to ensure sufficient working capital, expand operations and fund foreign acquisitions in these locations. We believe that our future cash from domestic operations, together with our access to funds available under our unsecured revolving credit facility will provide adequate resources to fund both short-term and long-term operating requirements, capital expenditures, share repurchases, dividend payments, acquisitions and new business development activities in the United States. Although we hold a significant amount of cash outside of the United States and the draws on the credit facility to date have been made by our entity in the United States, we do not foresee any ongoing issues with repaying or refinancing these loans with domestically generated funds since we closely monitor the use



of this credit facility. In the event that management elects for any reason in the future to repatriate additional foreign earnings that were previously deemed to be indefinitely reinvested outside of the U.S., we would be required to record additional tax expense at the time when we determine that such foreign earnings are no longer deemed to be indefinitely reinvested outside of the United States.

We believe that our existing consolidated cash and cash equivalents at November 30, 2016, the liquidity provided by our \$175.0 million revolving credit facility and our anticipated cash flows from operations will be sufficient to meet our projected consolidated operating and capital requirements for at least the next twelve months. We consider various factors when reviewing liquidity needs and plans for available cash on hand including: future debt, principal and interest payments, future capital expenditure requirements, future share repurchases, future dividend payments (which are determined on a quarterly basis by the Company's Board of Directors), alternative investment opportunities, debt covenants and any other relevant considerations currently facing our business.

## Cash Flows

The following table summarizes our cash flows by category for the periods presented (in thousands):

|  | Three Months Ended November 30, |           |             |
|--|---------------------------------|-----------|-------------|
|  | 2016                            | 2015      | Change      |
| Net cash provided by operating activities                    | \$ 13,503                       | \$ 14,645 | \$ (1,142)  |
| Net cash used in investing activities                        | (23,890)                        | (535)     | (23,355)    |
| Net cash used in financing activities                        | (5,168)                         | (1,764)   | (3,404)     |
| Effect of exchange rate changes on cash and cash equivalents | (1,854)                         | (1,171)   | (683)       |
| Net (decrease) increase in cash and cash equivalents         | \$ (17,409)                     | \$ 11,175 | \$ (28,584) |

## Operating Activities

Net cash provided by operating activities decreased \$1.1 million to \$13.5 million for the three months ended November 30, 2016 from \$14.6 million for the corresponding period of the prior fiscal year. Cash flows from operating activities depend heavily on operating performance and changes in working capital. Our primary source of operating cash flows for the three months ended November 30, 2016 was net income of \$11.8 million, which decreased \$0.3 million from period to period. The changes in our working capital from period to period were primarily attributable to an overall decrease in accrued payroll and related expenses due to higher earned incentive payouts in the first quarter of fiscal year 2017 compared to the same period of the prior fiscal year as well as lower

earned incentive accruals from period to period. This change in working capital was mostly offset by an overall decrease in the trade accounts receivable balance due to decreased sales volumes in the first quarter of fiscal year 2017 as compared to the same quarter in the prior fiscal year and the timing of payments received from our customers from period to period.

#### Investing Activities

Net cash used in investing activities increased \$23.4 million to \$23.9 million for the three months ended November 30, 2016 from \$0.5 million for the corresponding period of the prior fiscal year. This increase was primarily due to an increase of \$10.8 million in cash outflow related to the purchase of the Company's new headquarters office during the first quarter of fiscal year 2017. The Company expects to incur additional capital costs related to the buildout of the acquired building between November 30, 2016 and the transition to the new headquarters office, which is expected to occur in late fiscal year 2017. Also contributing to the total cash outflows were a \$12.4 million net increase in purchases of short-term investments that were made primarily by our U.K. subsidiary from period to period.

#### Financing Activities

Net cash used in financing activities increased \$3.4 million to \$5.2 million for the three months ended November 30, 2016 from \$1.8 million for the corresponding period of the prior fiscal year primarily due to an increase in cash outflows of \$4.1 million for treasury stock purchases and \$0.5 million for dividends paid. In addition, there was a \$2.4 million increase in cash inflows from our revolving credit facility from period to period.

### Effect of Exchange Rate Changes

All of our foreign subsidiaries currently operate in currencies other than the U.S. Dollar and a significant portion of our consolidated cash balance is denominated in these foreign functional currencies, particularly at our U.K. subsidiary which operates in Pound Sterling. As a result, our cash and cash equivalents balances are subject to the effects of the fluctuations in these functional currencies against the U.S. Dollar at the end of each reporting period. The net effect of exchange rate changes on cash and cash equivalents, when expressed in U.S. Dollar terms, was a decrease in cash of \$1.9 million and \$1.2 million for each of the three months ended November 30, 2016 and 2015. The change of \$0.7 million was primarily due to fluctuations in the foreign currency exchange rates for the Pound Sterling against the U.S. Dollar.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of Regulation S-K.

### Commercial Commitments

We have ongoing relationships with various suppliers (contract manufacturers) who manufacture our products. The contract manufacturers maintain title to and control of certain raw materials and components, materials utilized in finished products, and the finished products themselves until shipment to our customers or third-party distribution centers in accordance with agreed upon shipment terms. Although we typically do not have definitive minimum purchase obligations included in the contract terms with our contract manufacturers, when such obligations have been included, they have been immaterial. In the ordinary course of business, we communicate supply needs to our contract manufacturers based on orders and short-term projections, ranging from two to five months. We are committed to purchase the products produced by the contract manufacturers based on the projections provided.

Upon the termination of contracts with contract manufacturers, we obtain certain inventory control rights and are obligated to work with the contract manufacturer to sell through all product held by or manufactured by the contract manufacturer on our behalf during the termination notification period. If any inventory remains at the contract manufacturer at the termination date, we are obligated to purchase such inventory which may include raw materials, components and finished goods. The amounts for inventory purchased under termination commitments have been immaterial.

In addition to the commitments to purchase products from contract manufacturers described above, we may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of November 30, 2016, no such commitments were outstanding.

## Share Repurchase Plan

On June 21, 2016, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective on September 1, 2016, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2018. The timing and amount of repurchases are based on terms and conditions as may be acceptable to the Company's Chief Executive Officer and Chief Financial Officer and in compliance with all laws and regulations applicable thereto. During the period from September 1, 2016 through November 30, 2016, the Company repurchased 112,701 shares at a total cost of \$12.2 million under this \$75.0 million plan.

## Dividends

On December 13, 2016, the Company's Board of Directors approved a 17% increase in the regular quarterly cash dividend, increasing it from \$0.42 per share to \$0.49 per share. The \$0.49 per share dividend declared on December 13, 2016 is payable on January 31, 2017 to shareholders of record on January 20, 2017. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

## Critical Accounting Policies

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

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

Our critical accounting policies are discussed in more detail in Part II Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 2 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, which was filed with the SEC on October 24, 2016.

## Recently Issued Accounting Standards

Information on Recently Issued Accounting Standards that could potentially impact the Company’s consolidated financial statements and related disclosures is incorporated by reference to Part I—Item 1, “Notes to Condensed Consolidated Financial Statements” Note 2 — Basis of Presentation and Summary of Significant Accounting Policies, included in this report.

## Related Parties

On October 11, 2011, the Company’s Board of Directors elected Mr. Gregory A. Sandfort as a director of WD-40 Company. Mr. Sandfort is the Chief Executive Officer of Tractor Supply Company (“Tractor Supply”), which is a WD-40 Company customer that acquires products from the Company in the ordinary course of business.

The condensed consolidated financial statements include sales to Tractor Supply of \$0.3 million for each of the three months ended November 30, 2016 and 2015, respectively. Accounts receivable from Tractor Supply were not material as of November 30, 2016.



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

Refer to Part II Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, which was filed with the SEC on October 24, 2016.

### Item 4. Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (“Exchange Act”). The term disclosure controls and procedures means controls and other procedures of a Company that are designed to ensure the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures. The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company’s disclosure controls and procedures as of November 30, 2016, the end of the period covered by this report (the Evaluation Date), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in the Company’s reports filed under the Exchange Act. Although management believes the Company’s existing disclosure controls and procedures are adequate to enable the Company to comply with its disclosure obligations, management continues to review and update such controls and procedures. The Company has a disclosure committee, which consists of certain members of the Company’s senior management.

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

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

The information required by this item is incorporated by reference to the information set forth in Part I—Item 1, “Notes to Condensed Consolidated Financial Statements” Note 11 — Commitments and Contingencies, included in this report.

### Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I—Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, which was filed with the SEC on October 24, 2016.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 21, 2016, the Company’s Board of Directors approved a share buy-back plan. Under the plan, which became effective on September 1, 2016, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2018. The timing and amount of repurchases are based on terms and conditions as may be acceptable to the Company’s Chief Executive Officer and Chief Financial Officer and in compliance with all laws and regulations applicable thereto. During the period from September 1, 2016 through November 30, 2016, the Company repurchased 112,701 shares at a total cost of \$12.2 million under this \$75.0 million plan.

The following table provides information with respect to all purchases made by the Company during the three months ended November 30, 2016. All purchases listed below were made in the open market at prevailing market prices. Purchase transactions between September 1, 2016 and October 14, 2016 and between November 16, 2016 and November 22, 2016 were executed pursuant to trading plans adopted by the Company pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934.

| Total<br>Number<br>of Shares | Maximum |
|------------------------------|---------|
|------------------------------|---------|



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| Period                     | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>Per Share | Purchased<br>as Part<br>of Publicly<br>Announced<br>Plans<br>or<br>Programs | Dollar Value<br>of<br>Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plans<br>or Programs |
|----------------------------|---|---------------------------------------|---|--|
| September 1 - September 30 | 17,600                                    | \$ 114.98                             | 17,600  | \$ 72,976,033  |
| October 1 - October 31     | 30,387                                    | \$ 109.12                             | 30,387  | \$ 69,659,734  |
| November 1 - November 30   | 64,714                                    | \$ 105.30                             | 64,714  | \$ 62,843,757  |
| Total                      | 112,701                                   | \$ 107.84                             | 112,701   |  |

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Item 6. Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 3(a)        | Certificate of Incorporation, incorporated by reference from the Registrant's Form 10-K filed October 22, 2012, Exhibit 3(a) thereto.  |
| 3(b)        | Amended and Restated Bylaws of WD-40 Company, incorporated by reference from the Registrant's Form 8-K filed June 25, 2012, Exhibit 3(a) thereto.  |
| 10(a)       | Fourth Amendment to Credit Agreement dated September 1, 2016 among WD-40 Company and Bank of America, N.A., incorporated by reference from the Registrant's Form 8-K filed September 2, 2016, Exhibit 10(a) thereto. |
| 10(b)       | WD-40 Company 2016 Stock Incentive Plan, incorporated by reference from the Registrant's Proxy Statement filed November 3, 2016, Appendix A thereto.   |
| 10(c)       | Change of Control Severance Agreement between WD-40 Company and Steven Brass dated June 22, 2016.  |
| 31(a)       | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31(b)       | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32(a)       | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32(b)       | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101. INS    | XBRL Instance Document   |
| 101. SCH    | XBRL Taxonomy Extension Schema Document  |
| 101. CAL    | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101. DEF    | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101. LAB    | XBRL Taxonomy Extension Labels Linkbase Document   |

101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

WD-40 COMPANY

Registrant

Date:       By:     /s/ GARRY  
January     O. RIDGE  
9, 2017

Garry O.  
Ridge

President  
and Chief  
Executive  
Officer

(Principal  
Executive  
Officer)

By:       /s/ JAY W.  
REMBOLT  
Jay W.  
Rembolt

Vice  
President,  
Finance

Treasurer  
and Chief  
Financial  
Officer

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