

WD 40 CO
Form 10-Q
January 07, 2016
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, 2015

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 (State or other jurisdiction of incorporation or organization) | 95-1797918 (I.R.S. Employer Identification No.) |
| 1061 Cudahy Place, San Diego, California (Address of principal executive offices) | 92110 (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, 2016 was 14,399,027.

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WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended November 30, 2015

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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 30, 2015 | August 31, 2015 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 65,071 | \$ 53,896 |
| Short-term investments | 47,665 | 48,603 |
| Trade and other accounts receivable, less allowance for doubtful accounts of \$445 and \$491 at November 30, 2015 and August 31, 2015, respectively | 57,782 | 58,750 |
| Inventories | 35,575 | 32,052 |
| Current deferred tax assets, net | 6,957 | 5,824 |
| Other current assets | 4,392 | 6,127 |
| Total current assets | 217,442 | 205,252 |
| Property and equipment, net | 10,844 | 11,376 |
| Goodwill | 96,291 | 96,409 |
| Other intangible assets, net | 22,075 | 22,961 |
| Other assets | 3,276 | 3,259 |
| Total assets | \$ 349,928 | \$ 339,257 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,671 | \$ 17,128 |
| Accrued liabilities | 15,192 | 15,200 |
| Accrued payroll and related expenses | 12,393 | 13,357 |
| Income taxes payable | 2,607 | 2,287 |
| Total current liabilities | 50,863 | 47,972 |
| Revolving credit facility | 118,000 | 108,000 |
| Long-term deferred tax liabilities, net | 24,918 | 23,145 |
| Other long-term liabilities | 2,301 | 2,282 |
| Total liabilities | 196,082 | 181,399 |

Commitments and Contingencies (Note 11)

Shareholders' equity:

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|
| Common stock authorized 36,000,000 shares, \$0.001 par value; 19,594,908 and 19,546,888 shares issued at November 30, 2015 and August 31, 2015, respectively; and 14,406,219 and 14,450,490 shares outstanding at November 30, 2015 and August 31, 2015, respectively | 20 | 20 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|

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| | | |
|---------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Additional paid-in capital | 141,815 | 141,651 |
| Retained earnings | 267,245 | 260,683 |
| Accumulated other comprehensive income (loss) | (11,385) | (8,722) |
| Common stock held in treasury, at cost 5,188,689 and 5,096,398 shares at November 30, 2015 and August 31, 2015, respectively | (243,849) | (235,774) |
| Total shareholders' equity | 153,846 | 157,858 |
| Total liabilities and shareholders' equity | \$ 349,928 | \$ 339,257 |

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 November 30, | |
|--------------------------------------------------|------------------------------------|-----------|
| | 2015 | 2014 |
| Net sales | \$ 92,522 | \$ 96,353 |
| Cost of products sold | 41,114 | 46,652 |
| Gross profit | 51,408 | 49,701 |
| Operating expenses: | | |
| Selling, general and administrative | 27,848 | 27,424 |
| Advertising and sales promotion | 5,660 | 5,915 |
| Amortization of definite-lived intangible assets | 755 | 769 |
| Total operating expenses | 34,263 | 34,108 |
| Income from operations | 17,145 | 15,593 |
| Other income (expense): | | |
| Interest income | 148 | 134 |
| Interest expense | (372) | (294) |
| Other (expense) income, net | (51) | 102 |
| Income before income taxes | 16,870 | 15,535 |
| Provision for income taxes | 4,808 | 4,749 |
| Net income | \$ 12,062 | \$ 10,786 |
| Earnings per common share: | | |
| Basic | \$ 0.83 | \$ 0.73 |
| Diluted | \$ 0.83 | \$ 0.73 |
| Shares used in per share calculations: | | |
| Basic | 14,404 | 14,668 |
| Diluted | 14,461 | 14,738 |
| Dividends declared per common share | \$ 0.38 | \$ 0.34 |

See accompanying notes to condensed consolidated financial statements.

Updated

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

| | Three Months Ended November 30, | |
|-----------------------------------------|------------------------------------|-----------|
| | 2015 | 2014 |
| Net income | \$ 12,062 | \$ 10,786 |
| Other comprehensive loss: | | |
| Foreign currency translation adjustment | (2,663) | (6,296) |
| Total comprehensive income | \$ 9,399 | \$ 4,490 |

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 Capital | Earnings | Other Comprehensive Income (Loss) | Shares | Amount | Shareholders' Equity |
| Balance at August 31, 2015 | 19,546,888 | \$ 20 | \$ 141,651 | \$ 260,683 | \$ (8,722) | 5,096,398 | \$ (235,774) | \$ 157,858 |
| Issuance of common stock under share-based compensation plan, net of shares withheld for taxes | 48,020 | | (1,859) | | | | | (1,859) |
| Stock-based compensation | | | 633 | | | | | 633 |
| Tax benefits from settlements of stock-based equity awards | | | 1,390 | | | | | 1,390 |
| Cash dividends (\$0.38 per share) | | | | (5,500) | | | | (5,500) |
| Acquisition of treasury stock | | | | | | 92,291 | (8,075) | (8,075) |
| Foreign currency translation adjustment | | | | | (2,663) | | | (2,663) |
| Net income | | | | 12,062 | | | | 12,062 |
| Balance at November 30, 2015 | 19,594,908 | \$ 20 | \$ 141,815 | \$ 267,245 | \$ (11,385) | 5,188,689 | \$ (243,849) | \$ 153,846 |

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 November 30, | |
|-----------------------------------------------------------------------------------|------------------------------------|-----------|
| | 2015 | 2014 |
| Operating activities: | | |
| Net income | \$ 12,062 | \$ 10,786 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,661 | 1,633 |
| Net gains on sales and disposals of property and equipment | (3) | (24) |
| Deferred income taxes | 3 | (615) |
| Excess tax benefits from settlements of stock-based equity awards | (1,390) | (494) |
| Stock-based compensation | 633 | 498 |
| Unrealized foreign currency exchange losses, net | 360 | 461 |
| Provision for bad debts | 78 | 164 |
| Changes in assets and liabilities: | | |
| Trade and other accounts receivable | 430 | (720) |
| Inventories | (3,730) | 624 |
| Other assets | 1,688 | 2,841 |
| Accounts payable and accrued liabilities | 3,617 | (3,563) |
| Accrued payroll and related expenses | (3,187) | (4,931) |
| Income taxes payable | 2,403 | 2,698 |
| Other long-term liabilities | 20 | 40 |
| Net cash provided by operating activities | 14,645 | 9,398 |
| Investing activities: | | |
| Purchases of property and equipment | (448) | (1,582) |
| Proceeds from sales of property and equipment | - | 79 |
| Acquisition of business | - | (3,705) |
| Purchases of short-term investments | (2,933) | (82) |
| Maturities of short-term investments | 2,846 | - |
| Net cash used in investing activities | (535) | (5,290) |
| Financing activities: | | |
| Treasury stock purchases | (8,075) | (9,863) |
| Dividends paid | (5,500) | (5,003) |
| Proceeds from issuance of common stock | 421 | 685 |
| Excess tax benefits from settlements of stock-based equity awards | 1,390 | 494 |

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| | | |
|--------------------------------------------------------------|-----------|-----------|
| Proceeds from revolving credit facility | 10,000 | - |
| Net cash used in financing activities | (1,764) | (13,687) |
| Effect of exchange rate changes on cash and cash equivalents | (1,171) | (1,782) |
| Net increase (decrease) in cash and cash equivalents | 11,175 | (11,361) |
| Cash and cash equivalents at beginning of period | 53,896 | 57,803 |
| Cash and cash equivalents at end of period | \$ 65,071 | \$ 46,442 |

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 and the Pacific Rim, 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 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, 2015 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, 2015,

which was filed with the SEC on October 22, 2015.

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 forecasted cash 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, 2015, the Company had a notional amount of \$7.3 million outstanding in foreign currency forward contracts, which mature from December 2015 through March 2016. Unrealized net gains and losses related to foreign currency forward contracts were not significant at November 30, 2015 and August 31, 2015. Realized net gains and losses related to foreign currency forward contracts were not material for each of the three month periods ended November 30, 2015 and 2014.

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, 2015, 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 and short-term investments 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, 2015, 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 November 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes”, which requires that all deferred tax liabilities and assets be classified as noncurrent on the balance sheet, and eliminates the current requirement for an entity to separate these liabilities and assets into current and noncurrent amounts. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is in the process of evaluating which transition method it will elect and whether to early adopt. The Company has also evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements given the relative materiality of the deferred tax assets and liabilities that would be reclassified from current to noncurrent.

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 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. The Company does not

intend to adopt this guidance early and it will become effective for the Company on September 1, 2018 with the one year deferral. Companies are permitted to adopt this new rule following either a full or modified retrospective approach. The Company has not yet decided which implementation method it will adopt. The Company is also in the process of evaluating the potential impacts of this updated authoritative guidance on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory", which simplifies the subsequent measurement of inventories valued under first-in, first-out ("FIFO") or the average cost method. Under this new guidance, inventory will be measured at the lower of cost and net realizable value, with net realizable value defined as the estimated selling price less reasonable costs to sell the inventory. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted and should be applied prospectively. 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.

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 30, 2015 | August 31, 2015 |
|----------------------------------------------------|-------------------------|-----------------------|
| Product held at third-party contract manufacturers | \$ 4,093 | \$ 3,224 |
| Raw materials and components | 3,381 | 3,597 |
| Work-in-process | 221 | 141 |
| Finished goods | 27,880 | 25,090 |
| Total | \$ 35,575 | \$ 32,052 |

Note 4. Property and Equipment

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

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| | November 30, 2015 | August 31, 2015 |
|-------------------------------------------------|-------------------------|--------------------|
| Machinery, equipment and vehicles | \$ 15,662 | \$ 15,585 |
| Buildings and improvements | 4,283 | 4,264 |
| Computer and office equipment | 3,841 | 3,895 |
| Software | 7,198 | 7,029 |
| Furniture and fixtures | 1,416 | 1,414 |
| Land | 277 | 282 |
| Subtotal | 32,677 | 32,469 |
| Less: accumulated depreciation and amortization | (21,833) | (21,093) |
| Total | \$ 10,844 | \$ 11,376 |

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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, 2015 | \$ 85,532 | \$ 9,667 | \$ 1,210 | \$ 96,409 |
| Translation adjustments | (12) | (106) | - | (118) |
| Balance as of November 30, 2015 | \$ 85,520 | \$ 9,561 | \$ 1,210 | \$ 96,291 |

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 28, 2015, 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 30, 2015 | August 31, 2015 |
|--------------------------|-------------------------|--------------------|
| Gross carrying amount | \$ 37,622 | \$ 37,805 |
| Accumulated amortization | (15,333) | (14,702) |
| Translation adjustments | (214) | (142) |

Net carrying amount \$ 22,075 \$ 22,961

There were no indicators of potential impairment identified as a result of the Company's review of events and circumstances related to its existing definite-lived intangible assets for the three months ended November 30, 2015.

Changes in the carrying amounts of definite-lived intangible assets by segment for the three months ended November 30, 2015 are summarized below (in thousands):

| | Americas | EMEA | Asia-Pacific | Total |
|---------------------------------|-----------|----------|--------------|-----------|
| Balance as of August 31, 2015 | \$ 17,121 | \$ 5,840 | \$ - | \$ 22,961 |
| Amortization expense | (552) | (203) | - | (755) |
| Translation adjustments | - | (131) | - | (131) |
| Balance as of November 30, 2015 | \$ 16,569 | \$ 5,506 | \$ - | \$ 22,075 |

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

| | Trade Names | Customer-Based | Technology |
|-------------------------------|----------------|----------------|------------|
| Remainder of fiscal year 2016 | \$ 1,840 | \$ 389 | \$ 29 |
| Fiscal year 2017 | 2,448 | 518 | 39 |
| Fiscal year 2018 | 2,448 | 518 | 39 |
| Fiscal year 2019 | 2,448 | 300 | - |
| Fiscal year 2020 | 2,053 | 191 | - |
| Thereafter | 8,431 | 384 | - |
| Total | \$ 19,668 | \$ 2,300 | \$ 107 |

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.

Note 6. Accrued and Other Liabilities

Accrued liabilities consisted of the following (in thousands):

| | November 30, 2015 | August 31, 2015 |
|--------------------------------------------------|-------------------------|-----------------------|
| Accrued advertising and sales promotion expenses | \$ 8,690 | \$ 9,259 |
| Accrued professional services fees | 1,300 | 1,207 |
| Accrued sales taxes | 216 | 797 |
| Accrued other taxes | 448 | 246 |
| Other | 4,538 | 3,691 |
| Total | \$ 15,192 | \$ 15,200 |

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

| November 30, | August 31, |
|-----------------|---------------|
|-----------------|---------------|

| | 2015 | 2015 |
|--------------------------------|-----------|-----------|
| Accrued incentive compensation | \$ 2,610 | \$ 5,530 |
| Accrued payroll | 4,319 | 3,644 |
| Accrued profit sharing | 3,239 | 2,508 |
| Accrued payroll taxes | 1,630 | 1,189 |
| Other | 595 | 486 |
| Total | \$ 12,393 | \$ 13,357 |

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 three times, most recently on November 16, 2015, (the “Third Amendment”). This Third Amendment increased the revolving commitment from an amount not to exceed \$150.0 million to an amount not to exceed \$175.0 million. The Third Amendment also increased the aggregate amount of the Company’s capital stock that it may repurchase from \$125.0 million to \$150.0 million during the period from and including the Third Amendment effective date 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.

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. No such autoborrow agreement has been signed to date. In addition, 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 amended agreement no longer contains the material adverse effect clause as an event of default. Prior to the removal of the material adverse effect clause as an event of default in the second amendment to the agreement, which was entered into by the Company in May 2015, all amounts outstanding under the revolving credit facility were classified as short-term on the Company's consolidated balance sheets as Bank of America could require the Company to immediately repay all amounts outstanding on the credit facility based on subjective factors. With the removal of the material adverse effect clause as an event of default, Bank of America can no longer require this immediate repayment of amounts outstanding on the line of credit. As a result, the Company is permitted to classify draws on the line of credit as long-term provided that management has determined it has the ability and intent to refinance such draws on the line of credit for a period in excess of twelve months. 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. Since the autoborrow feature allows for borrowings to be made and repaid by the Company on a daily basis, any such borrowings made under an active autoborrow agreement would be classified as short-term on the Company's consolidated balance sheets.

During the three months ended November 30, 2015, the Company borrowed an additional \$10.0 million U.S. dollars under the revolving credit facility. 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, 2015, the Company had a \$118.0 million outstanding balance on the revolving credit facility and was in compliance with all debt covenants under this credit facility. Based on management's ability and intent to refinance the short-term borrowings under the facility with successive short-term borrowings for a period of at least twelve months, the Company has classified the entire amount outstanding under the revolving credit facility as a long-term liability at November 30, 2015.

Note 8. Share Repurchase Plans

On October 14, 2014, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective at the beginning of the third quarter of fiscal year 2015, once the Company's previous \$60.0 million plan was exhausted, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2016. The timing and amount of repurchases will be 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 March 1, 2015 through November 30, 2015, the Company repurchased 278,334 shares at a total cost of \$23.8 million under this \$75.0 million plan.

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Note 9. Earnings per Common Share

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

| | Three Months Ended November 30, | |
|-----------------------------------------------------------|------------------------------------|-----------|
| | 2015 | 2014 |
| Net income | \$ 12,062 | \$ 10,786 |
| Less: Net income allocated to participating securities | (75) | (62) |
| Net income available to common shareholders | \$ 11,987 | \$ 10,724 |

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 Ended November 30, | |
|------------------------------------------------------|---------------------------------------|--------|
| | 2015 | 2014 |
| Weighted-average common shares outstanding, basic | 14,404 | 14,668 |
| Weighted-average dilutive securities | 57 | 70 |
| Weighted-average common | | |

| | | |
|-----------------------------|--------|--------|
| shares outstanding, diluted | 14,461 | 14,738 |
|-----------------------------|--------|--------|

For the three months ended November 30, 2015 and 2014, weighted-average stock-based equity awards outstanding that are non-participating securities in the amounts of 8,030 and 5,347, respectively, 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 President and 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 and \$0.2 million for the three months ended November 30, 2015 and 2014, respectively. Accounts receivable from Tractor Supply were not material as of November 30, 2015.

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 of 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, 2015, no such commitments were outstanding.

Litigation

The Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business.

On May 31, 2012, a legal action was filed against the Company in a United States District Court, in Texas (IQ Products Company v. WD-40 Company). The complaint alleged that the Company wrongfully terminated a contract manufacturing relationship. IQ Products Company ("IQPC") also raised alleged safety concerns regarding a long-standing manufacturing specification related to the Company's products. On November 13, 2014, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") of the Department of Transportation ("DOT") addressed a letter to IQPC to inform IQPC that it concluded an investigation and found no evidence of non-compliance with existing PHMSA regulations or an imminent public safety hazard posed by WD-40 Company products.

Pursuant to a court order, the dispute was submitted to arbitration. Following nine days of testimony and full briefing, a panel of three arbitrators issued their Interim Award and decision on the merits of the dispute on May 15, 2015. The arbitrators rejected all of IQPC's claims. On August 14, 2015, the arbitrators issued a further Interim Award to declare that the Company is the prevailing party in the proceeding for purposes of awarding attorney's fees and costs. On November 19, 2015, the arbitrators issued a Final Award, incorporating each of the two Interim Awards and ordering IQPC to pay to the Company the sum of \$1.5 million for attorney's fees and costs. On December 4, 2015, the Company filed a motion in the United States District Court in Texas to confirm the Final Award and for the entry of judgment for the award of fees and costs.

On September 24, 2015, IQPC filed an action in the United States District Court in New Jersey against the DOT and PHMSA alleging that the PHMSA failed to properly follow the applicable regulations when it previously investigated the manufacturing and required regulatory testing of the Company's products. The Company is not named as a party to this action, but IQPC continues to allege that the Company's products do not comply with the applicable regulation and that such alleged failure is evidence of a dangerous condition. The Company's position, supported by the PHMSA's prior investigation and conclusions noted above, is that all of the Company's aerosol products are properly manufactured and tested in accordance with the applicable regulation. The Company will monitor this pending litigation and the Company will take such action as may be necessary or appropriate to protect the Company's

interests.

The Company does not believe that there is any reasonable possibility that these matters related to IQPC will have a materially negative impact on the Company's financial condition or results of operations.

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, 2015.

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, 2015.

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 28.5% and 30.6% of income before income taxes for the three months ended November 30, 2015 and 2014, respectively. The decrease in the effective income tax rate from period to period was driven by an increase in earnings from foreign operations, particularly those in the United Kingdom, which are taxed at decreasing tax rates and a one-time, nonrecurring benefit from the release of liabilities associated with unrecognized tax benefits that resulted from the expiration of statutes.

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 2013 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2011 are no longer subject to examination. The Company has estimated that up to \$0.4 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.

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 Corporate (1) | Total |
|------------------------------------------|-----------|-----------|--------------|---------------------------------|-----------|
| 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 amortization expense | \$ 1,080 | \$ 510 | \$ 64 | \$ 7 | \$ 1,661 |
| Interest income | \$ 2 | \$ 103 | \$ 43 | \$ - | \$ 148 |
| Interest expense | \$ 369 | \$ - | \$ 3 | \$ - | \$ 372 |
| November 30, 2014: | | | | | |
| Net sales | \$ 44,773 | \$ 34,591 | \$ 16,989 | \$ - | \$ 96,353 |
| Income from operations | \$ 9,966 | \$ 6,380 | \$ 4,446 | \$ (5,199) | \$ 15,593 |
| Depreciation and amortization expense | \$ 1,028 | \$ 542 | \$ 55 | \$ 8 | \$ 1,633 |
| Interest income | \$ 3 | \$ 100 | \$ 31 | \$ - | \$ 134 |
| Interest expense | \$ 293 | \$ - | \$ 1 | \$ - | \$ 294 |

(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, | |
| | 2015 | 2014 |
| Maintenance products | \$ 82,241 | \$ 84,904 |
| Homecare and cleaning products | 10,281 | 11,449 |
| Total | \$ 92,522 | \$ 96,353 |

Note 14. Subsequent Events

On December 8, 2015, the Company's Board of Directors approved an 11% increase in the regular quarterly cash dividend, increasing it from \$0.38 per share to \$0.42 per share. The \$0.42 per share dividend declared on December 8, 2015 is payable on January 29, 2016 to shareholders of record on January 15, 2016.

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

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

The following information is provided as a supplement to, and should be read in conjunction with, the unaudited condensed consolidated financial statements and notes thereto included in 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, 2015, which was filed with the Securities and Exchange Commission (“SEC”) on October 22, 2015.

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, 2015, 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 and the Pacific Rim, 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 and industrial distributors and suppliers.

Highlights

The following summarizes the financial and operational highlights for our business during the three months ended November 30, 2015:

- Consolidated net sales decreased \$3.8 million for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. As a result of translating the sales of our subsidiaries from their functional currencies to U.S. Dollar, consolidated net sales were unfavorably impacted by \$3.7 million from period to period. Thus, on a constant currency basis, net sales would have decreased by \$0.1 million from period to period. Of this \$3.7 million unfavorable impact from changes in foreign currency exchange rates, \$2.1 million came from our EMEA segment, which accounted for 35% of our consolidated sales for the three months ended November 30, 2015.
- Consolidated net sales for the WD-40 Specialist product line were \$4.3 million which is a 2% increase for the three months ended November 30, 2015 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 55.6% for the three months ended November 30, 2015 compared to 51.6% for the corresponding period of the prior fiscal year.
- Consolidated net income increased \$1.3 million, or 12%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. As a result of translating the net income of our subsidiaries from their functional currencies to U.S. Dollar, consolidated net income was unfavorably impacted by \$0.5 million from period to period. Thus, on a constant currency basis, net income would have increased \$1.8 million.
- Diluted earnings per common share for the three months ended November 30, 2015 were \$0.83 versus \$0.73 in the prior fiscal year period.
- Share repurchases continue to be executed under our current \$75.0 million share buy-back plan, which was approved by the Company's Board of Directors in October 2014. During the period from September 1, 2015 through November 30, 2015, the Company repurchased 92,291 shares at an average price of \$87.47 per share, for a total cost of \$8.1 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.

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Results of Operations

Three Months Ended November 30, 2015 Compared to Three Months Ended November 30, 2014

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, | | | |
|-------------------------------------------------|---------------------------------|-----------|---------------------------|---------|
| | 2015 | 2014 | Change from Prior Year | |
| | | | Dollars | Percent |
| Net sales: | | | | |
| Maintenance products | \$ 82,241 | \$ 84,904 | \$ (2,663) | (3)% |
| Homecare and cleaning products | 10,281 | 11,449 | (1,168) | (10)% |
| Total net sales | 92,522 | 96,353 | (3,831) | (4)% |
| Cost of products sold | 41,114 | 46,652 | (5,538) | (12)% |
| Gross profit | 51,408 | 49,701 | 1,707 | 3% |
| Operating expenses | 34,263 | 34,108 | 155 | - |
| Income from operations | \$ 17,145 | \$ 15,593 | \$ 1,552 | 10% |
| Net income | \$ 12,062 | \$ 10,786 | \$ 1,276 | 12% |
| Earnings per common share - diluted | \$ 0.83 | \$ 0.73 | \$ 0.10 | 14% |
| Shares used in per share calculations - diluted | 14,461 | 14,738 | (277) | (2)% |

Net Sales by Segment

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

| | Three Months Ended November 30, | | | |
|--------------|---------------------------------|-----------|---------------------------|---------|
| | 2015 | 2014 | Change from Prior Year | |
| | | | Dollars | Percent |
| Americas | \$ 44,412 | \$ 44,773 | \$ (361) | (1)% |
| EMEA | 32,086 | 34,591 | (2,505) | (7)% |
| Asia-Pacific | 16,024 | 16,989 | (965) | (6)% |
| Total | \$ 92,522 | \$ 96,353 | \$ (3,831) | (4)% |

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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 | |
|--------------------------------|---------------------------------|-----------|-------------|---------|
| | 2015 | 2014 | Dollars | Percent |
| Maintenance products | \$ 37,063 | \$ 36,850 | \$ 213 | 1% |
| Homecare and cleaning products | 7,349 | 7,923 | (574) | (7)% |
| Total | \$ 44,412 | \$ 44,773 | \$ (361) | (1)% |
| % of consolidated net sales | 48% | 46% | | |

Sales in the Americas segment, which includes the U.S., Canada and Latin America, decreased to \$44.4 million, down \$0.4 million, or 1%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact on sales for the Americas segment from period to period. Sales for the three months ended November 30, 2015 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been \$44.8 million in the Americas segment. Thus, on a constant currency basis, sales would have remained constant from period to period.

Sales of maintenance products in the Americas segment increased \$0.2 million, or 1%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. This sales increase was mainly driven by higher sales of maintenance products in the U.S., which was up 4% from period to period, primarily due to a higher level of promotional activities for all maintenance products and the added distribution of our new WD-40 EZ Reach™ product, which was launched in the last quarter of fiscal year 2015. The sales increase in the U.S. was partially offset by a decrease in sales in Canada and Latin America, which were down 15% and 6%, respectively, from period to period. The decrease in Canada was due to changes in foreign currency exchange rates. In functional currency, which is the Canadian Dollar, sales of maintenance products in Canada increased by 2% from period to period. The decrease in Latin America was primarily due to the timing of customer orders from period to period. Also contributing to the overall sales increase of maintenance products in the Americas segment was higher sales of the WD-40 Specialist product line, which were up 3%, from period to period due to increased promotional activities and new distribution during the three months ended November 30, 2015.

Sales of homecare and cleaning products in the Americas decreased \$0.6 million, or 7%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Sales of homecare and cleaning products in the U.S., which is where the majority of such sales originate, decreased 4% primarily driven by lower sales of the Carpet Fresh™ and Spot Shot™ products, which were down 16% and 9%, respectively, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. 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, 2015, the carrying value of definite-lived intangible assets associated with the Company's trade names for the homecare and cleaning products was \$18.9 million, of which \$1.5 million and \$9.9 million were associated with the Carpet Fresh and Spot Shot 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 the three months ended November 30, 2015 compared to the distribution for the three months ended November 30, 2014 when 79% of sales came from the U.S., and 21% of sales came from Canada and Latin America.

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 | |
|--------------------------------|---------------------------------|-----------|-------------|---------|
| | 2015 | 2014 | Prior Year | |
| | | | Dollars | Percent |
| Maintenance products | \$ 30,742 | \$ 32,952 | \$ (2,210) | (7)% |
| Homecare and cleaning products | 1,344 | 1,639 | (295) | (18)% |
| Total (1) | \$ 32,086 | \$ 34,591 | \$ (2,505) | (7)% |
| % of consolidated net sales | 35% | 36% | | |

(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 \$32.1 million, down \$2.5 million, or 7%, for the three months ended November 30, 2015 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, 2015 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been \$34.2 million in the EMEA segment. Thus, on a constant currency basis, sales would have decreased by \$0.4 million, or 1%, 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 remained constant at \$19.4 million for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Although sales from the direct markets did not change from period to period, we experienced sales increases in certain direct markets in Europe for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year primarily due to new distribution, with percentage increases in sales as follows: Italy, 26%; the U.K, 6%; and the Germanics region, 3%. The increased sales in these regions were completely offset by the sales decreases of 23% in Iberia and 4% in France from period to period. The sales in the Europe direct markets continued to be negatively impacted by the weakening of the Euro relative to the Pound Sterling from period to period. The average exchange rate for the Euro against the Pound Sterling decreased by 8% to 0.7285 during the first three months of

fiscal year 2016 from 0.7886 for the same period in the prior fiscal year which resulted in decreased sales in Pound Sterling from period to period. Although sales in the direct markets remained constant from period to period, sales of the WD-40 Specialist product line increased \$0.4 million, or 53%, due to expanded distribution. Sales from direct markets accounted for 61% of the EMEA segment's sales for the three months ended November 30, 2015 compared to 56% 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 \$2.5 million, or 17%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year primarily due to a significant decrease in sales in Russia as a result of the unstable market conditions in Eastern Europe. Sales to Russia decreased by approximately 35% period over period. The distributor markets accounted for 39% of the EMEA segment's total sales for the three months ended November 30, 2015 compared to 44% 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 | |
|--------------------------------|---------------------------------|-----------|-------------|---------|
| | 2015 | 2014 | Dollars | Percent |
| Maintenance products | \$ 14,436 | \$ 15,102 | \$ (666) | (4)% |
| Homecare and cleaning products | 1,588 | 1,887 | (299) | (16)% |
| Total | \$ 16,024 | \$ 16,989 | \$ (965) | (6)% |
| % of consolidated net sales | 17% | 18% | | |

Sales in the Asia-Pacific segment, which includes Australia, China and other countries in the Asia region, decreased to \$16.0 million, down \$1.0 million, or 6%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact on sales for the Asia-Pacific segment from period to period. Sales for the three months ended November 30, 2015 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been \$17.2 million in the Asia-Pacific segment. Thus, on a constant currency basis, sales would have increased by \$0.2 million, or 1%, from period to period.

Sales in Asia, which represented 76% of the total sales in the Asia-Pacific segment, decreased \$0.2 million, or 1%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. This sales decrease was primarily attributable to the timing of customer orders in the Asian distributor markets from period to period. Although sales in China remained relatively constant at \$2.9 million from period to period, changes in foreign currency exchange rate had an unfavorable impact on sales in China. In functional currency, which is the Chinese Yuan Renminbi, sales increased by 3% from period to period primarily due to increased distribution, particularly in Southern China, and higher sales levels resulting from promotional activities.

Sales in Australia decreased \$0.8 million, or 18%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates had an unfavorable impact on Australia sales. In functional currency, which is the Australian Dollar, sales increased by 4% for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year primarily due to increased distribution and the continued growth of our base business.

Gross Profit

Gross profit increased to \$51.4 million for the three months ended November 30, 2015 compared to \$49.7 million for the corresponding period of the prior fiscal year. As a percentage of net sales, gross profit increased to 55.6% for the three months ended November 30, 2015 compared to 51.6% for the corresponding period of the prior fiscal year.

Gross margin was positively impacted by 2.6 percentage points for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year due to favorable net changes in the costs of petroleum-based specialty chemicals and aerosol cans. 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. We expect that the cost of crude oil will continue to be volatile and that volatility will impact our cost of products sold in future periods. Although a significant portion of the cost of most of our maintenance products comes from petroleum-based specialty chemicals, only a small amount of the total cost of a can of such products is directly indexed to the cost of crude oil. Gross margin was also positively impacted by 0.4 percentage points for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year due to sales price increases. These sales price increases were implemented in certain locations in the Asia-Pacific segment in the third quarter of fiscal year 2015 and in the EMEA segment in the first quarter of fiscal year 2016 specifically related to the GT85 brand. In addition, gross margin was positively impacted by 0.4 percentage points from period to period due to lower warehousing and in-bound freight costs, particularly in the Americas segment.

Advertising, promotional and other discounts that we give to our customers decreased from period to period positively impacting 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. The combined effects of favorable sales mix changes and other miscellaneous costs also positively impacted gross margin by 0.5 percentage points from period to period. The overall impact from sales mix changes and other miscellaneous costs mainly came from favorable shifts in product mix in the Americas segment from period to period and a higher portion of sales in our Asia Pacific and EMEA segment being made to higher margin direct markets in the first quarter of fiscal year 2016 compared to the corresponding period of the prior fiscal year. These favorable impacts to gross margin were slightly offset by 0.2 percentage points due to changes in foreign currency exchange rates from period to period, primarily due to the fluctuations in the exchange rates for the Euro and U.S. Dollar against the Pound Sterling in our EMEA segment. 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 net effect of the general weakening of the Euro against the Pound Sterling and the strengthening of the U.S. Dollar against the Pound Sterling from period to period caused a decrease in our sales, resulting in unfavorable impacts to the gross margin.

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 and \$3.9 million for each of the three months ended November 30, 2015 and 2014, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses for the three months ended November 30, 2015 increased \$0.4 million, or 2%, to \$27.8 million from \$27.4 million for the corresponding period of the prior fiscal year. As a percentage of net sales, SG&A expenses increased to 30.1% for the three months ended November 30, 2015 from 28.5% for the corresponding period of the prior fiscal year. The increase in SG&A expenses was primarily attributable to higher employee-related costs, which were mostly offset by changes in foreign currency exchange rates from period to period. 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 annual compensation increases, which take effect in the first quarter of the fiscal year, and higher earned incentive compensation from period to period. Changes in foreign currency exchange rates had a favorable impact of \$1.0 million on SG&A expenses for the three months ended November 30, 2015 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 \$1.8 million and \$1.6 million for the three months ended November 30, 2015 and 2014, 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, 2015 decreased \$0.2 million, or 4%, to \$5.7 million from \$5.9 million for the corresponding period of the prior fiscal year. As a percentage of net sales, these expenses remained constant at 6.1% for both the three months ended November 30, 2015 and 2014. The decrease in advertising and sales promotion expenses was primarily due to a lower level of promotional programs and marketing support in the EMEA and Asia-Pacific segments, which were partially offset by increased promotional activities in the Americas segment, primarily related to the WD-40 EZ Reach and WD-40 Specialist products, from period to period. Changes in foreign currency exchange rates did not have a material impact on sales for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Investment in global advertising and sales promotion expenses for fiscal year 2016 is expected to be in the range of 6.0% to 7.0% 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, 2015 were \$3.7 million compared to \$4.2 million for the corresponding period of the prior fiscal year. Therefore, our total investment in advertising and sales promotion activities totaled \$9.4 million and \$10.1 million for the three months ended November 30, 2015 and 2014, respectively.

Amortization of Definite-lived Intangible Assets Expense

Amortization of our definite-lived intangible assets remained constant at \$0.8 million for both the three months ended November 30, 2015 and 2014.

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 | |
|---------------------------|---------------------------------|-----------|-------------|---------|
| | 2015 | 2014 | Prior Year | |
| | | | Dollars | Percent |
| Americas | \$ 10,860 | \$ 9,966 | \$ 894 | 9% |
| EMEA | 6,715 | 6,380 | 335 | 5% |
| Asia-Pacific | 5,123 | 4,446 | 677 | 15% |
| Unallocated corporate (1) | (5,553) | (5,199) | (354) | 7% |
| | \$ 17,145 | \$ 15,593 | \$ 1,552 | 10% |

(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 increased to \$10.9 million, up \$0.9 million, or 9%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year, primarily due to a higher gross margin, which was slightly offset by a \$1.0 million increase in total operating expenses. As a percentage of net

sales, gross profit for the Americas segment increased from 50.7% to 55.3% 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, a lower level of advertising, promotional and other discounts that we give to our customers, as well as decreased warehousing and in-bound freight costs from period to period. Operating income as a percentage of net sales increased from 22.3% to 24.5% from period to period.

EMEA

Income from operations for the EMEA segment increased to \$6.7 million, up \$0.3 million, or 5%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year, primarily due to a higher gross margin, which was more than offset by a \$2.5 million decrease in sales. As a percentage of net sales, gross profit for the EMEA segment increased from 54.3% to 57.0% period over period primarily due to the combined positive impacts of decreased costs of petroleum-based specialty chemicals and aerosol cans and sales price increases, both of which were slightly offset by the unfavorable impacts of fluctuations in foreign currency exchange rates 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 U.S. Dollar. The net effects of the continued weakening of the Euro against the Pound Sterling and the strengthening of the U.S. Dollar against the Pound Sterling from period to period has caused our sales to decrease, resulting in unfavorable impacts to the gross margin. The lower level of sales from period to period was accompanied by a \$0.8 million decrease in total operating expenses, some of which was related to advertising and sales promotion expenses. Operating income as a percentage of net sales increased from 18.4% to 20.9% period over period.

Asia-Pacific

Income from operations for the Asia-Pacific segment increased to \$5.1 million, up \$0.7 million, or 15%, for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year, primarily due to a higher gross margin, which was almost completely offset by a \$1.0 million decrease in sales. As a percentage of net sales, gross profit for the Asia-Pacific segment increased from 48.5% to 53.4% period over period due to the combined positive impacts of decreased costs of petroleum-based specialty chemicals and aerosol cans, sales price increases, and favorable impacts of changes in sales mix, all 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. The lower level of sales from period to period in the Asia-Pacific segment was accompanied by a \$0.4 million decrease in total operating expenses driven in part by lower advertising and sales promotion expenses. Operating income as a percentage of net sales increased from 26.2% to 32.0% 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, | | |
| | 2015 | 2014 | Change |
| Interest income | \$ 148 | \$ 134 | \$ 14 |
| Interest expense | \$ 372 | \$ 294 | \$ 78 |
| Other (expense) income, net | \$ (51) | \$ 102 | \$ (153) |
| Provision for income taxes | \$ 4,808 | \$ 4,749 | \$ 59 |

Interest Income

Interest income remained constant for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year.

Interest Expense

Interest expense remained relatively constant for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year.

Other (Expense) Income, Net Expense

Other (expense) income, net changed by \$0.2 million for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year primarily due to net foreign currency exchange losses which were recorded for the three months ended November 30, 2015 compared to net foreign currency exchange gains which were recorded in the corresponding period of the prior fiscal year.

Provision for Income Taxes

The provision for income taxes was 28.5% and 30.6% of income before income taxes for the three months ended November 30, 2015 and 2014, respectively. The decrease in the effective income tax rate from period to period was driven by an increase in earnings from foreign operations, particularly those in the United Kingdom, which are taxed at decreasing tax rates and a one-time, nonrecurring benefit from the release of liabilities associated with unrecognized tax benefits that resulted from the expiration of statutes.

Net Income

Net income was \$12.1 million, or \$0.83 per common share on a fully diluted basis for the three months ended November 30, 2015 compared to \$10.8 million, or \$0.73 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 \$0.5 million on net income for the three months ended November 30, 2015 compared to the corresponding period of the prior fiscal year. Thus, on a constant currency basis, net income would have increased by \$1.8 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 rule, which includes gross margin, cost of doing business, and earnings before 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 of definite-lived intangible assets and depreciation in operating departments and EBITDA is defined as net income (loss) before interest, income taxes, depreciation and amortization. Beginning in fiscal year 2016, we changed to this new 55/30/25 rule from our previous 50/30/20 rule. This means that we now target our gross margin to be 55% of net sales, our cost of doing business to be 30% of net sales, and our EBITDA to be 25% of net sales. Although our 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, we continue to focus on and work towards achievement of our 55/30/25 targets over the long-term.

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

| | Three Months Ended November 30, | |
|-----------------------------------------------------|---------------------------------------|------|
| | 2015 | 2014 |
| Gross margin | 56% | 52% |
| Cost of doing business as a percentage of net sales | 35% | 34% |
| EBITDA as a percentage of net sales (1) | 20% | 18% |

(1) Percentages may not aggregate to EBITDA percentage due to rounding.

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, | |
| | 2015 | 2014 |
| Total operating expenses - GAAP | \$ 34,263 | \$ 34,108 |
| Amortization of definite-lived intangible assets | (755) | (769) |
| Depreciation (in operating departments) | (687) | (673) |
| Cost of doing business | \$ 32,821 | \$ 32,666 |
| Net sales | \$ 92,522 | \$ 96,353 |
| Cost of doing business as a percentage of net sales | 35% | 34% |

EBITDA (in thousands, except percentages)

| | Three Months Ended | |
|--------------------------------------------------|--------------------|-----------|
| | November 30, | |
| | 2015 | 2014 |
| Net income - GAAP | \$ 12,062 | \$ 10,786 |
| Provision for income taxes | 4,808 | 4,749 |
| Interest income | (148) | (134) |
| Interest expense | 372 | 294 |
| Amortization of definite-lived intangible assets | 755 | 769 |
| Depreciation | 906 | 864 |
| EBITDA | \$ 18,755 | \$ 17,328 |
| Net sales | \$ 92,522 | \$ 96,353 |
| EBITDA as a percentage of net sales | 20% | 18% |

Liquidity and Capital Resources

Overview

The Company's financial condition and liquidity remain strong. Net cash provided by operations was \$14.6 million for the three months ended November 30, 2015 compared to \$9.4 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. During the three months ended November 30, 2015, we borrowed an additional \$10.0 million U.S. dollars under the revolving credit facility. We regularly convert existing draws on our line of credit to new draws with new maturity dates and interest rates. As of November 30, 2015, we had a \$118.0 million outstanding balance on the revolving credit facility, all of which was classified as long-term, and 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, 2015, we were in compliance with all debt covenants as required by the revolving credit facility and believe it is unlikely we will fail to meet 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 meet the debt covenants.

At November 30, 2015, we had a total of \$112.7 million in cash and cash equivalents and short-term investments. Of this balance, \$98.1 million was held in Europe, Australia and China in foreign currencies. It is our intention to indefinitely reinvest all current and future foreign 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 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 some or all of the 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, 2015, 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, | | |
|--------------------------------------------------------------|---------------------------------|-------------|-----------|
| | 2015 | 2014 | Change |
| Net cash provided by operating activities | \$ 14,645 | \$ 9,398 | \$ 5,247 |
| Net cash used in investing activities | (535) | (5,290) | 4,755 |
| Net cash used in financing activities | (1,764) | (13,687) | 11,923 |
| Effect of exchange rate changes on cash and cash equivalents | (1,171) | (1,782) | 611 |
| Net increase (decrease) in cash and cash equivalents | \$ 11,175 | \$ (11,361) | \$ 22,536 |

Operating Activities

Net cash provided by operating activities increased \$5.2 million to \$14.6 million for the three months ended November 30, 2015 from \$9.4 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, 2015 was net income of \$12.1 million. The changes in our working capital from period to period were primarily attributable to an overall increase in accounts payable and accrued liabilities due to the timing of payments from period to period. In addition, the net cash provided by operating activities was impacted by the overall increase in inventory levels due to the timing of our inventory purchases from period to period. Also contributing to the change in working capital from period to period were lower earned incentive payouts in the first quarter of fiscal year 2016 compared to the same period of the prior fiscal year.

Investing Activities

Net cash used in investing activities decreased \$4.8 million to \$0.5 million for the three months ended November 30, 2015 from \$5.3 million for the corresponding period of the prior fiscal year. This decrease was primarily due to a decrease of \$3.7 million in cash outflow related to the GT85 Limited acquisition which was completed by our U.K. subsidiary in the first quarter of the prior fiscal year and a decrease of \$1.1 million in purchases of property and equipment from period to period.

Financing Activities

Net cash used in financing activities decreased \$11.9 million to \$1.8 million for the three months ended November 30, 2015 from \$13.7 million for the corresponding period of the prior fiscal year primarily due to a \$10.0 million increase in cash inflow from our revolving credit facility and a \$1.8 million decrease in treasury stock purchases. In addition, there was a \$0.3 million decrease in proceeds from the issuance of common stock upon the exercise of stock options from period to period. Dividends paid increased by \$0.5 million 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 \$1.2 million and \$1.8 million for each of the three months ended November 30, 2015 and 2014. The change of \$0.6 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 of 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 behalf of the Company 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, 2015, no such commitments were outstanding.

Share Repurchase Plan

On October 14, 2014, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective at the beginning of the third quarter of fiscal year 2015, once the Company's previous \$60.0 million plan was exhausted, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2016. The timing and amount of repurchases will be 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 March 1, 2015 through November 30, 2015, the Company repurchased 278,334 shares at a total cost of \$23.8 million under this \$75.0 million plan.

Dividends

On December 8, 2015, the Company's Board of Directors approved an 11% increase in the regular quarterly cash dividend, increasing it from \$0.38 per share to \$0.42 per share. The \$0.42 per share dividend declared on December 8, 2015 is payable on January 29, 2016 to shareholders of record on January 15, 2016. 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, 2015, which was filed with the SEC on October 22, 2015.

Recently Issued Accounting Standards

In November 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes”, which requires that all deferred tax liabilities and assets be classified as noncurrent on the balance sheet, and eliminates the current requirement for an entity to separate these liabilities and assets into current and noncurrent amounts. This guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is in the process of evaluating which transition method it will elect and whether to early adopt. The Company has also evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements given the relative materiality of the deferred tax assets and liabilities that would be reclassified from current to noncurrent.

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 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. The Company does not intend to adopt this guidance early and it will become effective for the Company on September 1, 2018 with the one year deferral. Companies are permitted to adopt this new rule following either a full or modified retrospective approach. The Company has not yet decided which implementation method it will adopt. The Company is also in the process of evaluating the potential impacts of this updated authoritative guidance on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory", which simplifies the subsequent measurement of inventories valued under first-in, first-out ("FIFO") or the average cost method. Under this new guidance, inventory will be measured at the lower of cost and net realizable value, with net realizable value defined as the estimated selling price less reasonable costs to sell the inventory. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted and should be applied prospectively. 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.

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 President and 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 and \$0.2 million for the three months ended November 30, 2015 and 2014, respectively. Accounts receivable from Tractor Supply were not material as of November 30, 2015.

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, 2015, which was filed with the SEC on October 22, 2015.

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, 2015, 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 Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business.

On May 31, 2012, a legal action was filed against the Company in a United States District Court, in Texas (IQ Products Company v. WD-40 Company). The complaint alleged that the Company wrongfully terminated a contract manufacturing relationship. IQ Products Company (“IQPC”) also raised alleged safety concerns regarding a long-standing manufacturing specification related to the Company’s products. On November 13, 2014, the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) of the Department of Transportation (“DOT”) addressed a letter to IQPC to inform IQPC that it concluded an investigation and found no evidence of non-compliance with existing PHMSA regulations or an imminent public safety hazard posed by WD-40 Company products.

Pursuant to a court order, the dispute was submitted to arbitration. Following nine days of testimony and full briefing, a panel of three arbitrators issued their Interim Award and decision on the merits of the dispute on May 15, 2015. The arbitrators rejected all of IQPC’s claims. On August 14, 2015, the arbitrators issued a further Interim Award to declare that the Company is the prevailing party in the proceeding for purposes of awarding attorney’s fees and costs. On November 19, 2015, the arbitrators issued a Final Award, incorporating each of the two Interim Awards and ordering IQPC to pay to the Company the sum of \$1.5 million for attorney’s fees and costs. On December 4, 2015, the Company filed a motion in the United States District Court in Texas to confirm the Final Award and for the entry of judgment for the award of fees and costs.

On September 24, 2015, IQPC filed an action in the United States District Court in New Jersey against the DOT and PHMSA alleging that the PHMSA failed to properly follow the applicable regulations when it previously investigated the manufacturing and required regulatory testing of the Company’s products. The Company is not named as a party to this action, but IQPC continues to allege that the Company’s products do not comply with the applicable regulation and that such alleged failure is evidence of a dangerous condition. The Company’s position, supported by the PHMSA’s prior investigation and conclusions noted above, is that all of the Company’s aerosol products are properly manufactured and tested in accordance with the applicable regulation. The Company will monitor this pending litigation and the Company will take such action as may be necessary or appropriate to protect the Company’s interests.

The Company does not believe that there is any reasonable possibility that these matters related to IQPC will have a materially negative impact on the Company’s financial condition or results of operations.

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, 2015, which was filed with the SEC on October 22, 2015.

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

On October 14, 2014, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective at the beginning of the third quarter of fiscal year 2015, once the Company's previous \$60.0 million plan was exhausted, the Company is authorized to acquire up to \$75.0 million of its outstanding shares through August 31, 2016. The timing and amount of repurchases will be 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 March 1, 2015 through November 30, 2015, the Company repurchased 278,334 shares at a total cost of \$23.8 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, 2015. All purchases listed below were made in the open market at prevailing market prices. Purchase transactions between September 1, 2015 and October 12, 2015 and between November 16, 2015 and November 20, 2015 were executed pursuant to trading plans adopted by the Company pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934.

| Period | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| September 1 - September 30 | 69,613 | \$ 85.33 | 69,613 | \$ 53,350,301 |
| October 1 - October 31 | 15,700 | \$ 92.89 | 15,700 | \$ 51,891,628 |
| November 1 - November 30 | 6,978 | \$ 96.62 | 6,978 | \$ 51,217,287 |
| Total | 92,291 | \$ 87.47 | 92,291 | |

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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) | Third Amendment to Credit Agreement dated November 16, 2015 among WD-40 Company and Bank of America, N.A., incorporated by reference from the Registrant's Form 8-K filed November 19, 2015, Exhibit 10(a) thereto. |
| 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 |

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
7, 2016

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

