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.

1

WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended November 30, 2015

TABLE OF CONTENTS

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

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.

3

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

4

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 Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	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.

6

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

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):

	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

10

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	$			