WD 40 CO
Form 10-Q
April 06, 2018
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 February 28, 2018

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.)
9715 Businesspark Avenue, San Diego, California (Address of principal executive offices)	92131 (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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 2, 2018 was 13,911,566.

WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended February 28, 2018

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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)

	February 28, 2018	August 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 36,500	$ 37,082
Short-term investments	86,914	80,166
Trade accounts receivable, less allowance for doubtful accounts of $262 and $240 at February 28, 2018 and August 31, 2017, respectively	73,332	64,259
Inventories	39,973	35,340
Other current assets	5,689	8,007
Total current assets	242,408	224,854
Property and equipment, net	36,849	29,439
Goodwill	95,947	95,597
Other intangible assets, net	15,221	16,244
Deferred tax assets, net	501	495
Other assets	3,074	3,088
Total assets	$ 394,000	$ 369,717
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 21,213	$ 20,898
Accrued liabilities	19,267	18,997
Accrued payroll and related expenses	10,270	14,222
Short-term borrowings	14,020	20,000
Income taxes payable	1,738	1,306
Total current liabilities	66,508	75,423
Long-term borrowings	153,200	134,000
Deferred tax liabilities, net	11,761	18,949
Other long-term liabilities and income taxes payable	8,189	1,958
Total liabilities	239,658	230,330
Commitments and Contingencies (Note 11)		
Shareholders' equity:		
Common stock authorized 36,000,000 shares, $0.001 par value; 19,729,392 and 19,688,238 shares issued at February 28, 2018 and August 31, 2017, respectively; and 13,928,937 and 13,984,183 shares		

outstanding at February 28, 2018 and August 31, 2017, respectively	20	20
Additional paid-in capital	152,536	150,692
Retained earnings	328,598	315,764
Accumulated other comprehensive income (loss)	(16,421)	(28,075)
Common stock held in treasury, at cost 5,800,455 and 5,704,055		
shares at February 28, 2018 and August 31, 2017, respectively	(310,391)	(299,014)
Total shareholders' equity	154,342	139,387
Total liabilities and shareholders' equity	$ 394,000	$ 369,717

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 February 28,		Six Months Ended February 28,	
	2018	2017	2018	2017
Net sales	$ 101,256	$ 96,519	$ 198,853	$ 185,767
Cost of products sold	45,498	42,057	88,898	80,265
Gross profit	55,758	54,462	109,955	105,502
Operating expenses:				
Selling, general and administrative	30,437	29,842	61,654	58,833
Advertising and sales promotion	5,212	5,041	10,327	9,853
Amortization of definite-lived intangible assets	741	717	1,470	1,438
Total operating expenses	36,390	35,600	73,451	70,124
Income from operations	19,368	18,862	36,504	35,378
Other income (expense):				
Interest income	131	133	264	280
Interest expense	(1,002)	(598)	(1,843)	(1,129)
Other (expense) income, net	(281)	9	(153)	273
Income before income taxes	18,216	18,406	34,772	34,802

Provision for income taxes	3,398	6,046	7,324	10,684
Net income	$ 14,818	$ 12,360	$ 27,448	$ 24,118
Earnings per common share:				
Basic	$ 1.05	$ 0.87	$ 1.95	$ 1.69
Diluted	$ 1.05	$ 0.87	$ 1.95	$ 1.69
Shares used in per share calculations:				
Basic	13,967	14,111	13,972	14,146
Diluted	13,995	14,143	14,003	14,182
Dividends declared per common share	$ 0.54	$ 0.49	$ 1.03	$ 0.91

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended February 28,		Six Months Ended February 28,	
	2018	2017	2018	2017
Net income	$ 14,818	$ 12,360	$ 27,448	$ 24,118
Other comprehensive income (loss):				
Foreign currency translation adjustment	7,827	284	11,654	(5,830)
Total comprehensive income	$ 22,645	$ 12,644	$ 39,102	$ 18,288

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, 2017	19,688,238	$ 20	$ 150,692	$ 315,764	$ (28,075)	5,704,055	$ (299,014)	$ 139,387
Issuance of common stock under share-based compensation plan, net of shares withheld for taxes	41,154	-	(1,583)					(1,583)
Stock-based compensation			3,238					3,238
Cash dividends ($1.03 per share)				(14,486)				(14,486)
Acquisition of treasury stock						96,400	(11,377)	(11,377)
Foreign currency translation adjustment					11,654			11,654
Cumulative effect of change in accounting principle			189	(128)				61
Net income				27,448				27,448
Balance at February 28, 2018	19,729,392	$ 20	$ 152,536	$ 328,598	$ (16,421)	5,800,455	$ (310,391)	$ 154,342

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)

	Six Months Ended February 28, 2018	2017
Operating activities:		
Net income	$ 27,448	$ 24,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,886	3,298
Net gains on sales and disposals of property and equipment	(96)	(101)
Deferred income taxes	(7,184)	155
Stock-based compensation	3,238	2,959
Unrealized foreign currency exchange losses	284	1,153
Provision for bad debts	28	(102)
Changes in assets and liabilities:		
Trade accounts receivable	(7,147)	(4,088)
Inventories	(3,752)	(6,582)
Other assets	2,539	(1,459)
Accounts payable and accrued liabilities	(260)	4,793
Accrued payroll and related expenses	(4,329)	(10,035)
Other long-term liabilities and income taxes payable	6,499	2,266
Net cash provided by operating activities	21,154	16,375
Investing activities:		
Purchases of property and equipment	(9,247)	(12,896)
Proceeds from sales of property and equipment	246	271
Purchase of intangible assets	(175)	-
Purchases of short-term investments	(84,181)	(17,212)
Maturities of short-term investments	83,967	4,517
Net cash used in investing activities	(9,390)	(25,320)
Financing activities:		
Treasury stock purchases	(11,377)	(18,718)
Dividends paid	(14,486)	(12,963)
Proceeds from issuance of common stock	215	359
Proceeds from issuance of long-term senior notes	20,000	-
Net (repayments) proceeds from revolving credit facility	(6,780)	26,233
Shares withheld to cover taxes upon conversions of equity awards	(1,797)	(1,692)

Net cash used in financing activities	(14,225)	(6,781)
Effect of exchange rate changes on cash and cash equivalents	1,879	(1,593)
Net decrease in cash and cash equivalents	(582)	(17,319)
Cash and cash equivalents at beginning of period	37,082	50,891
Cash and cash equivalents at end of period	$ 36,500	$ 33,572

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 that solve problems in workshops, factories and homes around the world. The Company markets its maintenance products and its homecare and cleaning products under the following well-known brands: WD-40®, 3-IN-ONE®, GT85®, X-14®, 2000 Flushes®, Carpet Fresh®, no vac®, Spot Shot®, 1001®, Lava® and Solvol®. Currently included in the WD-40 brand are the WD-40 Multi-Use Product and the WD-40 Specialist® and WD-40 BIKE® product lines.

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

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

Basis of Consolidation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The August 31, 2017 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, 2017, which was filed with the SEC on October 23, 2017.

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 to net asset balances held in non-functional currencies, specifically 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 February 28, 2018, the Company had a notional amount of $17.9 million outstanding in foreign currency forward contracts, which mature in July 2018. Unrealized net gains and losses related to foreign currency forward contracts were not significant at February 28, 2018, while unrealized net losses related to foreign currency forward contracts were $0.6 million at August 31, 2017. Realized net gains related to foreign currency forward contracts were not significant for the three months ended February 28, 2018 and were $0.4 million for the six months ended February 28, 2018, while realized net gains and losses related to foreign currency forward contracts were not significant for each of the three and six month periods ended February 28, 2017. Both unrealized and realized net gains and losses are recorded in other (expense) income, net on the Company's consolidated statements of operations.

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 February 28, 2018, the Company had no assets or liabilities that are measured at fair value in the financial statements on a recurring basis, with the exception of the foreign currency forward contracts which are classified as Level 2 within the fair value hierarchy. The carrying values of cash equivalents, short-term investments and short-term borrowings are recorded at cost, which approximates their fair values primarily due to their short-term maturities and are classified as Level 2 within the fair value hierarchy. In addition, the carrying value of borrowings held under the Company's revolving credit facility approximates fair value due to the variable nature of underlying interest rates, which generally reflect market conditions and such borrowings are classified as Level 2 within the fair value hierarchy. The Company's fixed rate long-term borrowings consist of senior notes which are also classified as Level 2 within the fair value hierarchy and are recorded at carrying value, which does not significantly differ from the fair value of the notes as of February 28, 2018. During the six months ended February 28, 2018, the Company did not record any significant nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition.

Recently Adopted Accounting Standards

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-05, "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118", to add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118 ("SAB 118"), to ASC 740 "Income Taxes". SAB 118 was issued by the SEC in December 2018 to provide immediate guidance for accounting implications of U.S. tax reform under the "Tax Cuts and Jobs Act" (the "Tax Act"), which became effective for the Company on January 1, 2018. The Company has evaluated the potential impacts of SAB 118 and has applied this guidance to its consolidated financial statements and related disclosures beginning in the second quarter of its fiscal year 2018. For additional information on SAB 118 and the impacts of the Tax Act on the Company's consolidated financial statements and related disclosures, see Part I-Item 1, "Notes to Condensed Consolidated Statements" Note 12- Income Taxes, included in this report.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment". The amendments in this updated guidance simplify how an entity is required to test goodwill for impairment due to concerns that were raised about the cost and complexity of annual impairment tests under the existing standard. This updated guidance eliminates Step 2 of the previous two-step quantitative model for goodwill impairment tests. Step 2 required an entity to calculate an implied fair value, which includes a hypothetical purchase price allocation requirement, for reporting units that failed Step 1. Per this updated guidance, a goodwill impairment will instead be measured as the amount by which a reporting unit's carrying value exceeds its fair value as identified in Step 1. Step 1 will be referred to simply as a "quantitative goodwill impairment test" subsequent to the Company's adoption of this updated guidance, since Step 2 has been eliminated and "steps" are no longer referred to within the updated guidance. However, the updated guidance still permits the Company to first conduct a qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance in its fiscal year 2018 during the second quarter, the period in which the Company performs its annual goodwill impairment test. The guidance was adopted on a prospective basis and is applicable to all of the Company's future annual goodwill impairment tests. The Company's reporting units have had no history of goodwill impairments and the Company also determined that no impairment of its goodwill existed as of February 28, 2018 as a result of its annual goodwill impairment test using a qualitative assessment. Therefore, the adoption of this guidance did not have an impact on the Company's consolidated financial statements and related disclosures. See Note 5 – Goodwill and Other Intangible Assets for additional information on the Company's fiscal year 2018 annual goodwill impairment test.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". The amendments in this updated guidance include changes to simplify the Codification for several aspects of the accounting for share-based payment transactions, including those related to the income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, minimum statutory withholding requirements and classification of certain items on the statement of cash flows. Certain of these changes are required to be applied retrospectively while other changes are required to be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption was permitted. The Company did not adopt this updated guidance early and therefore this guidance became effective for the Company during the first quarter of its fiscal year 2018. The impacts of the adoption by the Company of ASU No. 2016-09 in fiscal year 2018 were as follows:

· The Company recorded excess tax benefits of $0.2 million and $0.8 million within the provision for income taxes for the three and six months ended February 28, 2018, respectively, from settlements of stock-based equity awards. Prior to the adoption of this new guidance, these amounts would have been recorded as an increase to additional paid-in capital. Although the Company recorded $0.2 million in excess tax benefits from settlements of stock-based equity awards that settled during the three months ended February 28, 2018, this amount was completely offset during the quarter by the remeasurement of the excess tax benefits previously recorded during the first quarter of fiscal year 2018 from $0.8 million to $0.6 million. These excess tax benefits recorded during the first quarter of fiscal year 2018 were remeasured and reduced as a result of a decrease in the Company's U.S. federal corporate income tax rate due to U.S. tax reform under the "Tax Cuts and Jobs Act", which became effective for the Company on January 1, 2018.
· The Company elected to change its policy related to forfeitures of stock-based equity awards upon adoption of this new guidance such that it will now recognize the impacts of forfeitures as they occur rather than recognizing them based on an estimated forfeiture rate. As a result, the Company recorded a cumulative-effect adjustment to retained earnings. This adjustment to retained earnings and the impact of this change in policy for forfeitures on the Company's consolidated financial statements were not material.
· The Company elected to apply the presentation requirements for the statement of cash flows related to excess tax benefits from settlements of stock-based equity awards retrospectively for all periods presented which resulted in an increase of $0.9 million to both net cash provided by operating activities and net cash used in financing activities for the six months ended February 28, 2017.
· The Company's presentation in the statement of cash flows of employee taxes paid upon settlement of certain stock-based equity awards via shares withheld by the Company for tax-withholding purposes also changed as a result of the adoption of this new guidance since the Company previously reported such activity as an operating

activity rather than a financing activity. As required, the Company applied this change in presentation for the statement of cash flows retrospectively for all periods presented which resulted in an increase of $1.7 million to both net cash provided by operating activities and net cash used in financing activities for the six months ended February 28, 2017.

- The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of its diluted earnings per share for the three and six months ended February 28, 2018. The resulting increase in the Company's diluted weighted average common shares outstanding was not material.

Recently Issued Accounting Standards

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”, to optionally allow entities to reclassify stranded tax effects, resulting from the Tax Act, from accumulated other comprehensive income to retained earnings. Since the amendments within this guidance only relate to the reclassification of the income tax effects associated with the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The amendments in this updated guidance should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. corporate federal income tax rate in the Tax Act is recognized. The Company has evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures, as such stranded tax effects are immaterial.

In August 2017, the FASB issued ASU No. 2017-12, “Targeted Improvements to Accounting for Hedging Activities”, to better align risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. This updated guidance, among other things, expands component and fair value hedging, provides specific presentation guidance on the effects of hedging instruments, and eliminates the separate measurement and presentation of portions of hedges deemed to be ineffective. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. Currently, although the Company engages in foreign currency hedging activity to reduce its risk, none of its foreign currency forward contracts are designated as hedges for accounting purposes. As such, the adoption of this guidance will not have an impact on the Company’s consolidated financial statements and related disclosures.

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

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

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments”, which requires entities to estimate all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The updated guidance also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the potential impacts of this new guidance on its consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”, which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition”. The core principle of this updated guidance and related amendments is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance requires an entity to recognize revenue for product sales at the point in time in which control of goods transfers to the Company’s customers which, as defined, could be different than the point in time in which revenue had been recognized by the Company under existing U.S. GAAP, which was based on when title and the risks and rewards of ownership were transferred to the customer. The new guidance 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. Although early adoption is permitted, the Company has concluded that it will not adopt this guidance early and it will become effective for the Company on September 1, 2018. The Company will adopt this new guidance following the modified retrospective approach and will recognize the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained earnings on September 1, 2018. Management performed a detailed review of the Company’s customer contracts which was focused principally on, but not limited to, identifying the point in time at which the control of goods transfers to customers. Although management has not completed this review and is still in the process of completing a quantitative analysis, it does not expect the adoption of this guidance to have a material impact on net sales for the Company. In addition, management is still in the process of determining other impacts that this new guidance will have on the Company's consolidated financial statements and related disclosures.

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):

	February 28, 2018	August 31, 2017
Product held at third-party contract manufacturers	$ 3,399	$ 3,021
Raw materials and components	3,414	3,021
Work-in-process	363	215
Finished goods	32,797	29,083
Total	$ 39,973	$ 35,340

Note 4. Property and Equipment

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

	February 28, 2018	August 31, 2017
Machinery, equipment and vehicles	$ 17,783	$ 17,491
Buildings and improvements	17,172	16,953
Computer and office equipment	5,356	4,552
Software	9,398	7,947
Furniture and fixtures	1,727	1,608
Capital in progress	7,597	861
Land	3,465	3,453
Subtotal	62,498	52,865
Less: accumulated depreciation and amortization	(25,649)	(23,426)
Total	$ 36,849	$ 29,439

At February 28, 2018, capital in progress on the balance sheet included $7.4 million associated with capital costs related to the purchase of the Company's new office building and related land in Milton Keynes, England, which will house employees of the Company's EMEA segment that are based in the United Kingdom. The Company expects to incur additional capital costs related to the buildout of the acquired building and for the purchase of new furniture, fixtures and equipment. Upon completion of the buildout, the Company will place these assets into service and reclassify the amounts recorded in capital in progress to the respective fixed asset categories, which includes amounts attributable to the land. For further information, see the Liquidity and Capital Resources section in Part I—Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Note 5. Goodwill and Other Intangible Assets

Acquisitions

During the first quarter of fiscal year 2018, the Company entered into a confidential settlement agreement with FirstPower Group, LLC ("FirstPower") for dismissal of FirstPower's trademark infringement complaint against the Company relating to use of the words, "EZ-REACH" for the Company's WD-40 EZ-REACH Flexible Straw product. The settlement agreement provided for the Company's acquisition of FirstPower's trademark rights associated with the words "EZ REACH" for lubricating oil products for a purchase consideration of $0.2 million. The Company has used the words "EZ-REACH" since the introduction of the WD-40 EZ-REACH Flexible Straw product in fiscal year 2015.

The entire purchase consideration of $0.2 million was paid in cash upon execution of the settlement agreement and was allocated to the trade name-related intangible assets category. The Company began to amortize this definite-lived intangible asset on a straight-line basis over an estimated useful life of five years in the first quarter of fiscal year 2018. This acquisition did not have a material impact on the Company's condensed consolidated financial statements.

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, 2017	$ 85,448	$ 8,939	$ 1,210	$ 95,597
Translation adjustments	37	313	-	350
Balance as of February 28, 2018	$ 85,485	$ 9,252	$ 1,210	$ 95,947

During the second quarter of fiscal year 2018, the Company performed its annual goodwill impairment test. The annual goodwill impairment test was performed at the reporting unit level as required by the authoritative guidance as of the Company's most recent goodwill impairment testing date, November 30, 2017. In accordance with ASC 350-20, "Goodwill", companies are permitted to first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. In addition, the Company early adopted ASU 2017-04 "Simplifying the Test for Goodwill Impairment" in the second quarter of fiscal year 2018. The amendments in this updated guidance simplify how an entity is required to test goodwill for impairment if a quantitative approach is used during the annual goodwill impairment test. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures. See "Recently Adopted Accounting Standards" within Note 2 – Basis of Presentation and Summary of Significant Accounting Policies, included in this report, for additional information on ASU 2017-04. During the fiscal year 2018 annual goodwill impairment test, the Company performed a qualitative assessment of each reporting unit to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. In performing this qualitative assessment, the Company assessed relevant events and circumstances that may impact the fair value and the carrying amount of each of its reporting units. Factors that were considered included, but were not limited to, the following: (1) macroeconomic conditions; (2) industry and market conditions; (3) historical financial performance and expected financial performance, including the anticipated impacts of the "Tax Cuts and Jobs Act", which was signed into law on December 22, 2017 and became effective beginning January 1, 2018; (4) other entity specific events, such as changes in management or key personnel; and (5) events affecting the Company's reporting units, such as a change in the composition of net assets or any expected dispositions. Based on the results of this qualitative assessment, the Company determined that it is more likely than not that the carrying value of each of its reporting units is less than its fair value as of the goodwill impairment testing date and, thus, a quantitative analysis was not required. As a result, the Company concluded that no impairment of its goodwill existed as of February 28, 2018.

Definite-lived Intangible Assets

The Company's definite-lived intangible assets, which include the 2000 Flushes, Spot Shot, Carpet Fresh, 1001, EZ REACH 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):

	February 28, 2018	August 31, 2017
Gross carrying amount	$ 36,826	$ 35,891
Accumulated amortization	(21,605)	(19,647)
Net carrying amount	$ 15,221	$ 16,244

There has been no impairment charge for the six months ended February 28, 2018 and there were no indicators of impairment identified as a result of the Company's review of events and circumstances related to its existing definite-lived intangible assets.

Changes in the carrying amounts of definite-lived intangible assets by segment for the six months ended February 28, 2018 are summarized below (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance as of August 31, 2017	$ 12,706	$ 3,538	$ -	$ 16,244
Amortization expense	(1,116)	(354)	-	(1,470)
EZ REACH trade name	175	-	-	175
Translation adjustments	-	272	-	272
Balance as of February 28, 2018	$ 11,765	$ 3,456	$ -	$ 15,221

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 2018	$ 1,238	$ 241	$ 18
Fiscal year 2019	2,466	280	-
Fiscal year 2020	2,071	178	-
Fiscal year 2021	1,281	179	-
Fiscal year 2022	1,281	179	-
Thereafter	5,809	-	-
Total	$ 14,146	$ 1,057	$ 18

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):

	February 28, 2018	August 31, 2017
Accrued advertising and sales promotion expenses	$ 11,355	$ 10,889
Accrued professional services fees	1,386	1,456
Accrued sales taxes and other taxes	1,212	1,701
Other	5,314	4,951
Total	$ 19,267	$ 18,997

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

	February 28, 2018	August 31, 2017
Accrued incentive compensation	$ 3,763	$ 6,554
Accrued payroll	3,736	3,338
Accrued profit sharing	838	2,257
Accrued payroll taxes	1,351	1,503
Other	582	570
Total	$ 10,270	$ 14,222

Note 7. Debt

As of February 28, 2018, the Company held borrowings under two separate agreements as detailed below.

Note Purchase and Private Shelf Agreement

On November 15, 2017, the Company entered into the Note Purchase and Private Shelf Agreement (the “Note Agreement”) by and among the Company, PGIM, Inc. (“Prudential”), and certain affiliates and managed accounts of

Prudential (the “Note Purchasers”), pursuant to which the Company agreed to sell $20.0 million aggregate principal amount of senior notes (the “Series A Notes”) to certain of the Note Purchasers. The Series A Notes will bear interest at 3.39% per annum and will mature on November 15, 2032, unless earlier paid by the Company. Principal payments are required semi-annually beginning on May 15, 2018 in equal installments of $0.4 million through May 15, 2032, and the remaining outstanding principal in the amount of $8.4 million will become due on November 15, 2032. Interest is also payable semi-annually beginning on May 15, 2018. The Company used the proceeds to pay down $20.0 million of short-term borrowings under the Company’s existing $175.0 million unsecured Credit Agreement during the six months ended February 28, 2018. On February 23, 2018, this Note Agreement was amended (the “Note Amendment”) in connection with the purchase of the Company’s new office building and related land located in Milton Keynes, England, (the “Property”). The Note Amendment amends the Note Agreement to permit the Company to spend an aggregate amount not to exceed $15.0 million for the acquisition and improvement costs for the Property through the end of the Company’s fiscal year 2019.

Pursuant to the Note Agreement, the Company may from time to time offer for sale, in one or a series of transactions, additional senior notes of the Company (the “Shelf Notes”) in an aggregate principal amount of up to $105.0 million. The Shelf Notes will have a maturity date of no more than 15½ years after the date of original issuance and may be issued no later than November 15, 2020. The Shelf Notes, if issued, would bear interest at a rate per annum and would have such other particular terms, as would be set forth in a confirmation of acceptance executed by the purchasing parties prior to the closing of each purchase and sale transaction. To date, the Company has issued no Shelf Notes. Pursuant to the Note Agreement, the Series A Notes and any Shelf Notes (collectively, the "Notes") can be prepaid at the Company’s sole discretion, in whole at any time or in part from time to time, at 100% of the principal amount of the Notes being prepaid, together with accrued and unpaid interest thereon as well as an additional make-whole payment with respect to such Notes.

Credit Agreement

On June 17, 2011, the Company entered into an unsecured Credit Agreement (the “Credit Agreement”) with Bank of America, N.A. (“Bank of America”). Since June 17, 2011, this unsecured credit agreement has been amended six times, most recently on November 15, 2017, (the “Fifth Amendment”) and on February 23, 2018, (the “Sixth Amendment”). The Fifth Amendment amended certain provisions and covenants in the Credit Agreement to generally conform them to the corresponding provisions and covenants contained in the Note Agreement and permits the Company to incur indebtedness arising under the Note Agreement in an aggregate principal amount not to exceed the $20.0 million, the amount of the Series A Notes sold pursuant to the Note Agreement in November 2017. The Sixth Amendment amended the Credit Agreement to permit the Company to spend an aggregate amount not to exceed $15.0 million for the acquisition and improvement costs for the Company’s new office building and related land in Milton Keynes, England, through the end of the Company’s fiscal year 2019. The Sixth Amendment also permits the Company to incur an additional $15.0 million of indebtedness under the Note Agreement by issuance and sale of Shelf Notes pursuant to the Note Agreement

Per the terms of the amended agreement, the revolving commitment may not exceed $175.0 million and the aggregate amount of the Company’s capital stock that it may repurchase may not exceed $150.0 million during the period from November 16, 2015 to the maturity date of the agreement so long as no default exists immediately prior and after giving effect thereto. This revolving credit facility matures on May 13, 2020. In addition, as allowed per the terms of the Credit Agreement, the Company and Bank of America entered into an autoborrow agreement providing for the automatic advance of revolving loans in U.S. Dollars to the Company’s designated account at Bank of America. This agreement was entered into during the second quarter of fiscal year 2016 and this agreement has been in effect since that time. Since the autoborrow feature provides for borrowings to be made and repaid by the Company on a daily basis, any such borrowings made under an active autoborrow agreement are classified as short-term on the Company’s consolidated balance sheets. The Company had $8.2 million in net borrowings outstanding under the autoborrow agreement as of February 28, 2018.

The Company assesses its ability and intent to refinance the outstanding 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. Outstanding draws on the line of credit which the Company intends to repay in less than twelve months are classified as short-term. Outstanding draws for which management has the ability and intent to refinance with successive short-term borrowings for a period of at least twelve months are classified as long-term. During the six months ended February 28, 2018, the Company repaid $20.0 million in short-term borrowings outstanding under the line of credit by utilizing the proceeds from the $20.0 million in Series A Notes issued in November 2017. Subsequently, the Company borrowed $5.0 million under the revolving credit facility during the second quarter of fiscal year 2018, which it intends to repay in less than twelve months.

Short-term and long-term borrowings consisted of the following (in thousands):

	February 28, 2018	August 31, 2017
Short-term borrowings:		
Revolving credit facility, short-term	$ 5,000	$ 20,000
Revolving credit facility, autoborrow feature	8,220	-
Series A Notes, current portion of long-term debt	800	-
Total short-term borrowings	14,020	20,000
Long-term borrowings:		
Revolving credit facility	134,000	134,000
Series A Notes	19,200	-
Total long-term borrowings	153,200	134,000
Total borrowings	$ 167,220	$ 154,000

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Both the Note Agreement and Credit Agreement contain representations, warranties, events of default and remedies, as well as affirmative, negative and other financial covenants customary for these types of agreements. These covenants include, among other things, certain limitations on the ability of the Company and its subsidiaries to incur indebtedness, create liens, dispose of assets, make investments, repurchase shares of the Company's capital stock and enter into certain merger or consolidation transactions. Each agreement also includes a most favored lender provision which requires that any time any other lender has the benefit of one or more financial or operational covenants that is different than, or similar to, but more restrictive than those contained in its own agreement, those covenants shall be immediately and automatically incorporated by reference in the other lender's agreement.

Both the Note Agreement and the Credit Agreement require the Company to adhere to the same financial covenants. For the financial covenants, the definition of consolidated EBITDA includes the add back of non-cash stock-based compensation to consolidated net income when arriving at consolidated EBITDA. The terms of the financial covenants are as follows:

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

As of February 28, 2018 the Company was in compliance with all debt covenants under both the Note Agreement and the Credit Agreement.

Note 8. Share Repurchase Plan

On June 21, 2016, the Company's Board of Directors approved a share buy-back plan. Under the plan, which became effective on September 1, 2016, the Company is authorized to acquire up to $75.0 million of its outstanding shares through August 31, 2018. The timing and amount of repurchases are based on terms and conditions as may be acceptable to the Company's Chief Executive Officer and Chief Financial Officer and in compliance with all laws and regulations applicable thereto. During the period from September 1, 2016 through February 28, 2018, the Company repurchased 386,973 shares at a total cost of $42.5 million under this $75.0 million plan. During the six months ended February 28, 2018, the Company repurchased 96,400 shares at an average price of $118.01 per share, for a total cost of $11.4 million.

Note 9. Earnings per Common Share

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

	Three Months Ended February 28,		Six Months Ended February 28,	
	2018	2017	2018	2017
Net income	$ 14,818	$ 12,360	$ 27,448	$ 24,118
Less: Net income allocated to participating securities	(96)	(75)	(178)	(152)
Net income available to common shareholders	$ 14,722	$ 12,285	$ 27,270	$ 23,966

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 February 28,		Six Months Ended February 28,	
	2018	2017	2018	2017
Weighted-average common				

shares outstanding, basic	13,967	14,111	13,972	14,146
Weighted-average dilutive securities	28	32	31	36
Weighted-average common shares outstanding, diluted	13,995	14,143	14,003	14,182

There were no anti-dilutive stock-based equity awards outstanding for the three and six months ended February 28, 2018 and 2017, respectively.

Note 10. Related Parties

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

The condensed consolidated financial statements include sales to Tractor Supply of $0.2 million for both the three months ended February 28, 2018 and 2017, and $0.5 million for both the six months ended February 28, 2018 and 2017. Accounts receivable from Tractor Supply were not material as of February 28, 2018 and August 31, 2017.

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 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 February 28, 2018, no such commitments were outstanding.

Litigation

From time to time, the Company is subject to various claims, lawsuits, investigations and proceedings arising in the ordinary course of business, including but not limited to, product liability litigation and other claims and proceedings with respect to intellectual property, breach of contract, labor and employment, tax and other matters. As of February 28, 2018, there is no current proceeding or litigation involving the Company that management believes could have a material adverse impact on its business, financial condition and results of operations. For further information on the risks the Company faces from existing and future claims, suits, investigations and proceedings, see the Company's risk factors disclosed in Part I Item 1A, "Risk Factors," in its Annual Report on Form 10-K for the fiscal year ended August 31, 2017, which was filed with the SEC on October 23, 2017.

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 February 28, 2018.

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 February 28, 2018.

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.

On December 20, 2017 the United States House of Representatives and the Senate passed the "Tax Cuts and Jobs Act" (the "Tax Act"), which was signed into law on December 22, 2017 and became effective beginning January 1, 2018. Due to the complexity of the Tax Act, the SEC issued guidance in SAB 118 which clarifies the accounting for income taxes under ASC 740 if information is not yet available, prepared or analyzed in reasonable detail to complete the accounting for income tax effects of the Tax Act. SAB 118 provides for a measurement period of up to one year after the enactment of the Tax Act, during which time the required analyses and accounting must be completed. During the measurement period, (i) income tax effects of the Tax Act must be reported if the accounting has been completed; (ii) provisional amounts must be reported for income tax effects of the Tax Act for which the accounting is incomplete but a reasonable estimate can be determined; and (iii) provisional amounts are not required to be reported for income tax effects of the Tax Act for which a reasonable estimate cannot be determined. During the second quarter of fiscal year 2018, the Company recorded provisional amounts for the income tax effects of the changes in tax law and tax rates, as reasonable estimates were determined by management during this period. These estimates include the remeasurement of the deferred income tax balance on the Company's consolidated balance sheets due to the reduction in the corporate federal statutory tax rate from 35% to 21%, as well as the application of a mandatory one-time "toll tax" on unremitted foreign earnings.

The remeasurement of the Company's net deferred income tax liability was recorded as a provisional amount during the second quarter of fiscal year 2018 and resulted in a reduction of the liability of $6.9 million. The reduction is a non-cash benefit to the Company's provision for income taxes which resulted in a one-time benefit to earnings. This benefit was almost entirely offset by the estimated toll tax to be applied to unremitted foreign earnings, mandated by the Tax Act. The Company has paid taxes on earnings outside the United States at tax rates which have been on average below the historical U.S. corporate federal statutory rate of 35%. As a result, the Company's estimate of the deemed toll tax created a significant tax impact on the Company's provision for income taxes of $6.8 million, also recorded as a provisional amount during the second quarter of fiscal year 2018. The Company recorded both of these provisional amounts as discrete items in the second quarter of fiscal year 2018. Since the Tax Act allows companies to pay the toll tax over an eight year period with the larger payments coming due in the latter years, the Company recorded $6.3 million of the $6.8 million in other long-term liabilities and income taxes payable on its consolidated balance sheets. The determination of the impact of the income tax effects of the items reflected as provisional amounts may change, possibly materially, following review of historical records, refinement of calculations, modifications of assumptions and further interpretation of the Tax Act based on U.S. Treasury regulations and guidance from the Internal Revenue Service and state tax authorities. The Company will report revised provisional amounts in accordance with SAB 118 when additional information and guidance has become available.

Management will continue to review the Tax Act and is still in the process of determining the full impacts of the Tax Act on the Company. Management expects that the Company will lose the benefit from the Qualified Production Deduction in fiscal year 2019 but also expects to acquire certain benefits from the Foreign Derived Intangible Income section of the Tax Act. Other significant sections of the new tax law, including the Global Intangible Low Tax Income (“GILTI”) and the Base Erosion Anti-Abuse Tax (“BEAT”) do not apply to the Company’s fiscal year 2018. In addition the Company will continue to monitor for any significant impact on the Company’s consolidated financial statements in future periods with respect to GILTI and BEAT.

The provision for income taxes was 18.7% and 32.8% of income before income taxes for the three months ended February 28, 2018 and 2017, respectively. The decrease in the effective income tax rate from period to period was primarily due to the favorable impact of the reduced tax rate resulting from the Tax Act. In addition, the effective income tax rate was higher in the second quarter of last fiscal year due to the unfavorable impact of a non-reoccurring immaterial out-of-period correction that the Company recorded during the quarter associated with the tax impacts from certain unrealized foreign currency exchange losses. The Tax Act became effective on January 1, 2018, during the second quarter of the Company’s fiscal year, thus impacting the Company’s fiscal year 2018 effective tax rate. Since the Company has a fiscal year which ends on August 31st, the Company is subject to a “blended” corporate federal statutory rate in its fiscal year 2018 which is calculated based on the applicable tax rates before and after passage of the Tax Act and the number of days in the fiscal year. As a result of this calculation, the Company's blended federal statutory tax rate for fiscal year 2018 is 25.7% which is more than 9 percentage points lower than the statutory rate of 35% in the prior fiscal year.

The provision for income taxes was 21.1% and 30.7% of income before income taxes for the six months ended February 28, 2018 and 2017, respectively. The decrease in the effective income tax rate from period to period was primarily due to the favorable impact of the reduced tax rate resulting from the Tax Act, which became effective on January 1, 2018. In addition, the effective income tax rate in the first half of fiscal year 2017 was higher due to the unfavorable impact of a non-reoccurring immaterial out-of-period correction that the Company recorded in the second quarter associated with the tax impacts from certain unrealized foreign currency exchange losses. The decrease in the effective income tax rate from period to period was also driven in part by the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", in the first quarter of the Company's fiscal year 2018 which resulted in excess tax benefits from settlements of stock-based equity awards being recognized in the provision for income taxes, whereas such benefits were recognized as an increase to additional paid-in capital in prior periods. This resulted in a decrease to the Company's provision for income taxes of $0.8 million for the six months ended February 28, 2018.

The Company is subject to taxation in the U.S. and in various state and foreign jurisdictions. Due to expired statutes and prior audit examinations, the Company's federal income tax returns for years prior to fiscal year 2016 are not subject to examination by the U.S. Internal Revenue Service. The Company is also currently under audit in various international jurisdictions for fiscal years 2014 through 2015. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2014 are no longer subject to examination. The Company has estimated that up to $0.2 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

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
February 28, 2018:					
Net sales	$ 44,967	$ 39,632	$ 16,657	$ -	$ 101,256
Income from operations	$ 10,336	$ 10,532	$ 5,181	$ (6,681)	$ 19,368
Depreciation and amortization expense	$ 1,046	$ 646	$ 81	$ 196	$ 1,969
Interest income	$ -	$ 118	$ 13	$ -	$ 131
Interest expense	$ 999	$ -	$ 3	$ -	$ 1,002
February 28, 2017:					
Net sales	$ 45,078	$ 36,205	$ 15,236	$ -	$ 96,519
Income from operations	$ 10,710	$ 10,327	$ 4,585	$ (6,760)	$ 18,862
Depreciation and amortization expense	$ 1,090	$ 517	$ 61	$ 10	$ 1,678
Interest income	$ 2	$ 109	$ 22	$ -	$ 133
Interest expense	$ 595	$ -	$ 3	$ -	$ 598
For the Six Months Ended February 28, 2018:					
Net sales	$ 91,130	$ 74,660	$ 33,063	$ -	$ 198,853
Income from operations	$ 21,366	$ 18,368	$ 9,801	$ (13,031)	$ 36,504
Depreciation and amortization expense	$ 2,140	$ 1,205	$ 153	$ 388	$ 3,886
Interest income	$ 1	$ 237	$ 26	$ -	