

WD 40 CO
Form 10-K
October 25, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended August 31, 2007

Commission File No. 000-06936

WD-40 COMPANY

(Exact Name of Registrant as specified in 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	

Securities registered pursuant to Section 12(b) of the Act:

Title of Class: None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class: Common Stock, \$.001 par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value (closing price) of the voting stock held by non-affiliates of the Registrant as of February 28, 2007 was \$513,928,000.

As of October 17, 2007 the Registrant had 16,853,906 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the annual meeting of stockholders on December 11, 2007 is incorporated by reference into PART III, Items 10, 11, 12 and 14.

PART I

ITEM 1 - Business

(a) General Development of Business.

For more than four decades, WD-40 Company (the Company) sold only one product, WD-40®. WD-40 is a multi-purpose product, which acts as a lubricant, rust preventative, penetrant, cleaner and moisture displacer. In December 1995, the Company acquired the 3-IN-ONE® Oil brand of general purpose and specialty lubricants. In April 1999, the Company acquired the Lava® brand heavy-duty hand cleaner and in October 2000, acquired the Solvol® brand heavy-duty hand cleaner. In April 2001, the Company acquired three additional brands of household cleaning products, 2000 Flushes®, X-14® and Carpet Fresh®. The Company added to its fortress of brands through the acquisition in May 2002 of the Spot Shot® brand, a leading brand in the carpet stain remover category. In April 2004, the Company again added to its brands with its purchase of the 1001® line of carpet and household cleaners.

The acquisition of the 3-IN-ONE Oil brand provided the Company with an existing network of distribution in 17 countries, including several markets in which the WD-40 brand had not been sold. The Company used this distribution network to introduce the WD-40 brand to these markets and to add distribution channels in some of the markets that had been previously established.

The Lava brand is more than 100 years old and is well recognized by U.S. consumers. When the Lava brand was acquired, the Company identified that the Lava consumer and the WD-40 consumer shared similar characteristics and believed the distribution network developed through the WD-40 brand could effectively promote growth in the U.S. With the Lava acquisition, the Company concluded that it would benefit by an increased position in the U.S. grocery channel. This was a catalyst for the Global Household Brands acquisition.

In fiscal 2001, the Company acquired the business, brand trademarks, patents and other tangible and intangible assets known as Global Household Brands. The acquisition included three principal brand trademarks, 2000 Flushes automatic toilet bowl cleaners, X-14 automatic toilet bowl cleaners and hard surface cleaners and Carpet Fresh rug and room deodorizers. The acquisition was made to move the Company forward in its fortress of brands strategy, while also providing economies of scale in sales, manufacturing, and administration, and to strengthen the Company's position in the grocery trade channel. The Global Household Brands' broker network and grocery business, combined with the WD-40 Company's do-it-yourself (DIY) distribution, gave the Company growth potential for all brands across new trade channels.

In fiscal 2001, the Company also acquired the Solvol brand of heavy-duty hand cleaners in Australia. The Company extended the brand by introducing liquid products, a benefit from the technology obtained in the acquisition of the Lava brand. These liquid products have contributed to the growth of the Solvol brand.

In fiscal 2002, the Company completed the acquisition of the business, worldwide brand trademarks and other intangible assets of Heartland Corporation. The principal brand acquired by the Company was the Spot Shot brand, whose primary product was a carpet stain remover. The acquisition of this brand expanded the Company's product offerings in the household-cleaning category. The acquisition also included related Spot Shot products and a group of developing brands, which were subsequently sold to former employees of Heartland.

In fiscal 2004, the Company purchased the 1001 line of carpet and household cleaners in the United Kingdom (U.K.). The Company acquired this line of products to gain a presence in the U.K. market and to facilitate an introduction of the Company's Spot Shot and Carpet Fresh brand formulations through the use of an existing brand currently recognized by market consumers.

As a result of the Solvol and 1001 acquisitions, the Company was able to introduce existing products to new markets. The Company is also focused on expanding its current brands in existing markets with new product development. In fiscal year 2003, a new product development team, known as Team Tomorrow, was created to support new product development and current product improvement for all of the Company's brands.

(b) Financial Information About Industry Segments.

The Company's operating segments are determined consistent with the way management organizes and evaluates financial information internally for making operating decisions and assessing performance. The Company is organized on the basis of geographical area into the following segments: the Americas, Europe and Asia-Pacific. In addition, management reviews product performance on the basis of revenue. The financial information required by this item is included in Note 12 Business Segments and Foreign Operations of the Company's consolidated financial statements, which have been included in ITEM 15, Exhibits and Financial Statement Schedule.

The Company's revenue comes from three product categories multi-purpose lubricants, heavy-duty hand cleaners and household products. The first two are marketed primarily through retail chain stores, hardware stores, automotive parts outlets, mass retail and industrial distributors and suppliers, while the household products are mainly sold in grocery and mass retail.

(c) Narrative Description of Business.

Products

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

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

WD-40 is the market leader among multi-purpose lubricants and is sold in aerosol cans and in liquid form through retail chain stores, hardware stores, warehouse club stores, automotive parts outlets and industrial distributors and suppliers. WD-40 is sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. It has a wide variety of consumer uses in, for example, household, marine, automotive, construction, repair, sporting goods and gardening applications. The product also has numerous industrial applications.

The 3-IN-ONE Oil brand is sold primarily through the same distribution channels as the WD-40 brand. The brand consists of drip oil and spray lubricant products. The drip oil is an entry-level lubricant with unique spout options that allow precise applications for small mechanisms and assemblies, tool maintenance and threads on screws and bolts. 3-IN-ONE Oil is the market share leader among drip oils for household consumers. It also has wide industrial applications in such areas as locksmithing, HVAC, marine, farming, construction and jewelry manufacturing. In addition to the drip oil line of products, the 3-IN-ONE brand also includes a professional line of spray lubricant products known as 3-IN-ONE Professional, which is a line of high quality, great value maintenance products. The high quality and the established distribution network have enabled these products to gain international acceptance. 3-IN-ONE products are sold primarily in Europe, the U.S., Canada, Latin America, Australia and Asia.

The Lava brand is more than 100 years old and has strong awareness among American consumers. At the time of acquisition, the brand consisted of two sizes of bar soap and one size of liquid cleaner. Prior to the Company's acquisition, the brand had been sold in a limited number of domestic trade channels, notably supermarkets and drug stores. Because of its heavy-duty characteristics, the Lava brand also has appeal to consumers who shop in other channels such as mass, hardware and automotive. The Lava brand is sold primarily in the U.S.

Solvol, Australia's leading brand of heavy duty hand cleaner, was sold as a bar soap at the time of acquisition. Shortly after acquiring the Solvol brand, the Company increased the product offering of the brand by adding a liquid cleaner. Solvol is sold through hardware, grocery, industrial, automotive and mass retail channels in Australia.

X-14, which has recently been restaged as The Bathroom ExpertTM, is a line of quality products designed for the unique cleaning needs of the bathroom, from quick touch-ups to deep cleaning. X-14 is sold as an aerosol and liquid all-purpose bathroom cleaner, a liquid mold and mildew stain remover, a liquid daily shower cleaner and an automatic toilet bowl cleaner. X-14 is sold primarily in the U.S. through grocery, drug and mass retail channels.

2000 Flushes is a pioneering line of long-duration automatic toilet bowl cleaners that include in-bowl and drop in products. 2000 Flushes is sold primarily in the U.S. and Canada through grocery, drug and mass retail channels.

Carpet Fresh initiated the rug and room deodorizer category upon its introduction in 1978. The Carpet Fresh powder is sprinkled on carpets and vacuumed. Carpet Fresh is also sold as an aerosol foam, which does not require vacuuming. Carpet Fresh is sold primarily through grocery, drug and mass retail channels in the U.S., U.K. and Australia. In the U.K., Carpet Fresh is sold under the 1001 brand name. In Australia, Carpet Fresh is sold under the No Vac brand name.

The Spot Shot brand is currently an aerosol and liquid trigger carpet stain remover. The brand's products are sold primarily through grocery, mass retail, club stores, hardware and home center stores in the U.S. and Canada. Spot Shot products are also sold in the U.K. under the 1001 brand name.

The 1001 brand includes carpet and household cleaners and is sold primarily through mass retail, grocery and home center stores in the U.K. The brand was acquired with the expectation that the Company would be able to successfully introduce its other household product formulations under the 1001 brand in order to expand the Company's household products business into the U.K. market. During fiscal year 2004, the Carpet Fresh and Spot Shot brands were introduced under the 1001 brand in the U.K. The Carpet Fresh No Vac formula is one of the first aerosol rug and room deodorizers in the U.K. market.

The Company continues to be focused and committed to innovation and new product development. The Company sees innovation as an important factor to the long-term growth of its brands and intends to continue to work on future product, packaging and promotional innovations.

Financial information about segment operations and product lines appears in Note 12 Business Segments and Foreign Operations of the Company's consolidated financial statements, which have been included in ITEM 15, Exhibits and Financial Statement Schedule.

Sources and Availability of Raw Materials

The Company relies on multiple suppliers for the primary components for its products. The Company's primary components include aerosol cans and petroleum-based products, which are manufactured from commodities that are subject to volatile price changes. The availability of these components is affected by a variety of supply and demand factors, including global market trends, plant capacity decisions and natural disasters. The Company expects these components to continue to be readily available in the future, although the Company is exposed to volatile commodity prices.

Research and Development

The Company recognizes the importance of innovation to its long-term success and is focused on and committed to research and new product development activities. The Company has a new-product development team known as Team Tomorrow. This team engages in consumer research, product development, current product improvement and testing activities, and also leverages its development capabilities by partnering with a network of outside resources including the Company's current and prospective outsource suppliers. The Company incurred research and development expenses of \$3.8 million in each of fiscal years 2007 and 2006, and \$2.5 million in fiscal year 2005. None of this research activity was customer-sponsored.

Seasonality

Historically, the Company has achieved its highest quarterly sales levels during its fourth fiscal quarter. These patterns are largely reflective of the customers' seasonal purchasing patterns, as well as the timing of the Company's promotional activities. However, due to new product introductions and international sales growth, these patterns may not continue in future years.

Manufacturing

The Company outsources the manufacturing of its finished products to various suppliers (contract manufacturers). The Company uses contract manufacturers in the United States, Canada, Brazil, Argentina, United Kingdom, Australia, China, South Korea and India. Although the Company does not have any definitive minimum purchase obligations included in the contract terms with contract manufacturers, supply needs are communicated, and the Company is committed to purchase the products produced based on orders and short-term projections provided to the contract manufacturers. In addition, the Company has expanded its manufacturer sourcing outside of its traditional contract manufacturing and distribution model in order to support recent product introductions.

Significant Customer

Wal-Mart Stores, Inc. is a significant U.S. mass retail customer and offers a variety of the Company's products. Sales to U.S. Wal-Mart stores accounted for approximately 9 percent of the Company's consolidated net sales during each of fiscal years 2007, 2006 and 2005. Excluding sales to U.S. Wal-Mart stores, sales to affiliates of Wal-Mart worldwide accounted for approximately 4 percent during each of fiscal years 2007, 2006 and 2005.

Order Backlog

Order backlog is not a significant factor in the Company's business.

Competition

The market for the Company's products, especially its household products, is highly competitive and is expected to be increasingly competitive in the future. The Company's products compete both within their own product classes as well as within product distribution channels, competing with many other products for store placement and shelf space. Competition in international markets varies by country. The Company is aware of many competing products, some of which sell for lower prices or are produced and marketed by companies with greater financial resources than those of the Company. The Company relies on the awareness of its brands among consumers, the value offered by those brands as perceived by consumers, product innovation and its multiple channel distribution as its primary strategies. New products typically encounter intense competition, which may require substantial advertising and promotional support. When or if a new product achieves consumer acceptance, ongoing advertising and promotional support may be required to maintain its relative market position.

Trademarks and Patents

The Company owns numerous patents, but relies primarily upon its established trademarks, brand names and marketing efforts, including advertising and sales promotion, to compete effectively. The WD-40, 3-IN-ONE, Lava, Solvol, X-14, 2000 Flushes, Carpet Fresh and No Vac, Spot Shot and 1001 trademarks are registered in various countries throughout the world.

Employees

At August 31, 2007, the Company employed 278 people worldwide: 136 by the United States parent corporation, 6 of whom are based in the Malaysian regional office; 9 by the Company's Canadian subsidiary; 95 by the United Kingdom subsidiary, including 16 in Germany, 14 in France, 10 in Spain and 7 in Italy; 13 by the Australian subsidiary; 23 by the Chinese subsidiary; and 2 by WD-40 Manufacturing Company, the Company's manufacturing subsidiary. The majority of the Company's employees are engaged in sales and/or marketing activities.

(d) Financial Information About Foreign and Domestic Operations and Export Sales.

The information required by this item is included in Note 12 Business Segments and Foreign Operations, of the Company's consolidated financial statements, which have been included in ITEM 15, Exhibits and Financial Statement Schedule. The Company is subject to a variety of risks due to its foreign operations, including currency risk and credit risk. The Company attempts to minimize its exposure to foreign currency exchange fluctuations by the use of forward contracts on non-functional currency cash and accounts receivable balances. With the continuing expansion of the Company's business in Asia, Latin America, Eastern Europe, the Middle East and various states in the former Soviet Union, the Company is subject to increased credit risk for products sold to customers in these areas.

(e) Access to SEC Filings

Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Investor Relations section of the Company's website at www.wd40.com. These reports can be accessed free of charge from the Company's website as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the Commission. Note that nothing on the Company's website has been incorporated into this document.

Interested readers may also read and copy any materials that the Company files at the SEC Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Readers may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains the Company's reports.

ITEM 1A - Risk Factors

The following risks and uncertainties, as well as other factors described elsewhere in this report or in other filings of the Company with the SEC, could adversely affect the Company's business, financial condition and results of operations. Additional risks and uncertainties that are not presently known to the Company, or that are not currently believed by the Company to be material, may also harm the Company's business operations and financial results.

Component Supply Risk

The Company depends upon its suppliers for the supply of the primary components for its products. Such components are subject to significant price volatility beyond the control or influence of the Company. Petroleum-

based products, from which WD-40 and 3-IN-ONE are manufactured, have had significant price volatility in the past, and may in the future. Rising oil prices also impact the Company's cost of transporting its products. As component and raw material costs are the main contribution to cost of goods sold for all of the Company's products, any significant fluctuation in the costs of components could also have a material impact on the gross margins realized on the Company's products. Specifically, future can prices are exposed to fluctuations resulting from changes in tariffs on steel as well as general supply and demand economics; therefore, any significant increase or decrease in steel tariffs and/or the supply and demand of steel could have a significant impact on the costs of purchasing cans and the Company's cost of goods. In the event there is significant price volatility or component costs increases, the Company may not be able to maintain, or may choose not to maintain, its gross margins by raising its product prices. Should the Company choose to increase product prices, such increases may adversely affect demand and unit sales. Increases in the prices for the components could have a material adverse effect on the Company's business, operating results, financial position and cash flows.

Reliance on Supply Chain

The Company relies on third party contract manufacturers for the production of its finished goods. The Company does not have direct control over the management or business of the primary contract manufacturers utilized in the manufacturing of the Company's products, except indirectly through terms as negotiated in contracts with those manufacturers. Should the terms of doing business with the Company's primary contract manufacturers change, the Company's cost structure may be affected, which could have a direct impact on the Company's profit margins.

The Company's contract manufacturers rely upon two key vendors for the supply of empty cans used in the production of WD-40, Carpet Fresh, 3-IN-ONE, Spot Shot, X-14 and 1001 products. Additionally, the Company relies on single manufacturers for the production of 2000 Flushes and X-14 automatic toilet bowl cleaners, X-14 hard surface cleaners, Carpet Fresh powder and Lava bar soap. The loss of any of these suppliers or manufacturers could disrupt or interrupt the production of the Company's products. Although the Company has a business continuity plan to help mitigate the potential loss of suppliers or manufacturers, the inability to replace lost suppliers or manufacturers in a reasonable amount of time could have a material adverse effect on the Company's business, operating results, financial position and cash flows.

The Company also relies on third party logistics providers for the distribution of its products to customers. The Company does not have direct control over the management or business of the logistics providers, except indirectly through terms as negotiated in contracts. Should the terms of doing business with the Company's logistics providers change, the distribution of products to customers may be disrupted, which could have a direct impact on the Company's profitability. The inability to replace lost logistics providers in a reasonable amount of time could also have a material adverse effect on the Company's business, operating results, financial position and cash flows.

Additionally, as the Company continues to focus on innovation, there is an increasing need for global and multiple sourcing strategies. The inability of the Company to find adequate sourcing to support innovation initiatives could have a material adverse effect on the Company's business, operating results, financial position and cash flows.

Competition

The market for the Company's products is highly competitive and is expected to be increasingly competitive in the future. The Company's products compete both within their own product classes as well as within product distribution channels, competing with many other products for store placement and shelf space. Competition in international markets varies by country. The Company is aware of many competing products, some of which sell for lower prices. In addition, many of the Company's competitors have significantly greater financial, technical, product development, marketing and other resources.

These considerations as well as increased competition generally could result in price reductions, reduced gross margins, and a loss of market share, any of which could have a material adverse effect on the Company's business, operating results, financial position and cash flows. There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not materially adversely affect its business, operating results, financial position and cash flows.

Volume Growth

A large percentage of the Company's revenue comes from mature markets that are subject to increased competition. During fiscal year 2007, approximately 52% of the Company's sales were generated in U.S. markets. In the U.S., the markets for lubricants, household products and hand cleaners are considered mature and are generally characterized by high household penetration. The Company's ability to achieve volume growth is dependent on its ability to drive growth through innovation and investment in its established brands and its ability to capture market share from competitors. During fiscal year 2006, the Company increased prices on a majority of its product portfolio. Price increases may slow volume growth or create declines in volume in the short term as customers adjust to price increases. If the Company is unable to increase market share in existing product lines, or bring innovation to grow its product categories, or develop, acquire or successfully launch new products, or successfully penetrate new and developing markets, the Company may not achieve its volume growth objectives.

Political and Economic Risks

The Company's domestic and international operations are exposed to the risk of political and economic uncertainties. Changes in political and economic conditions may affect product cost, availability, distribution, pricing, purchasing, and consumption patterns. While the Company seeks to manage its business in consideration of these risks, there can be no assurance that the Company will be successful in doing so.

As the Company's sales extend to various countries around the globe, financial results in affected areas are exposed to a higher degree of risk. Examples of regions currently exposed to such types of risk include Latin America, the Middle East and parts of Asia. There can be no assurance that the Company will be able to successfully mitigate against current and future risks associated with political and economic uncertainties, or that the risks faced by the Company will not materially adversely affect its business, operating results, financial position and cash flows. As sales grow within various regions around the world, the Company's exposure to this risk will increase.

International Operations

The Company's sales outside of the U.S. were approximately 48% of net sales in fiscal year 2007. The Company has faced and will continue to face substantial risks associated with having foreign operations, including restrictions on repatriating foreign profits back to the U.S. and the imposition of tariffs or trade restrictions. These risks could have a significant impact on the Company's ability to sell its products on a competitive basis in international markets and may have a material adverse effect on the Company's results of operations or financial position.

Also, the Company's operations outside of the U.S. are subject to the risk of new and different legal and regulatory requirements in local jurisdictions, potential difficulties in staffing and managing local operations, potentially higher incidence of fraud or corruption, credit risk of local customers or distributors and potentially adverse tax consequences.

The Company is also exposed to foreign currency exchange rate risk with respect to its sales, profits, and assets and liabilities denominated in currencies other than the U.S. dollar. Although the Company uses instruments to

hedge certain foreign currency risks, it is not fully protected against foreign currency fluctuations and, therefore, the Company's reported earnings will be affected by changes in foreign currency exchange rates.

Business Risks

With the trend toward consolidation in the retail marketplace, the Company's customer base is shifting toward fewer, but larger, customers who purchase in larger volumes. A large percentage of the Company's sales are to mass retail customers. Sales to one of these customers (Wal-Mart and affiliates) accounted for approximately 13% of the Company's net sales in fiscal year 2007. Additionally, each of the Company's individual brands may be subjected to customer sales concentration. The loss of, or reduction in, orders from any of the Company's most significant customers could have a material adverse effect on the Company's brand values, business and financial results.

Large customers also seek price reductions, added support or promotional concessions, which may negatively impact the Company's ability to maintain existing profit margins.

The Company does not typically enter into long-term contracts with its customers. Accordingly, these customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. In addition, the Company is subject to changes in customer purchasing patterns. These types of changes may result from changes in the manner in which customers purchase and manage inventory levels, or display and promote products within their stores. Other potential factors such as customer disputes regarding shipments, fees, merchandise condition or related matters may also impact operating results.

The Company also faces the risk of diminishing product categories or shifts within these categories. Currently, the Company faces challenges related to its household products brands. Household products have short differentiated life cycles and often need continuous innovation to address consumers' changing needs and tastes. As a result of the dynamic nature of these product categories, the ability to understand consumer preferences and innovate is key to the Company's ongoing success. In the event that the Company is unable to meet consumer preferences through innovation, its brands and product offerings may be at risk of impairment.

Goodwill and Intangible Assets Impairment Risk

The Company carries goodwill and intangible assets resulting from the Company's acquisitions. Changes in market conditions or changes in the Company's results could subject these assets to risks of impairment.

The following items could trigger impairment:

Significant underperformance relative to historical or projected future operating results

Significant changes in the manner of our use of the acquired assets or the strategy for our overall business

Significant negative industry or economic trends

Significant decline in our stock price for a sustained period

Decreased market capitalization relative to net book value

Unanticipated technological change or competitive activities

Loss of key distribution

Loss of key personnel

Acts by government and courts

In fiscal year 2007, the Company's U.S. sales of household products declined versus the prior fiscal year. If the Company's sales of household products continue to decline and are determined to be other than temporary, the Company's intangible assets associated with these brands could be subject to impairment.

New Product Development Risks

The Company's long-term growth is reliant, in part, on the success of new product introductions and product renovations. The Company competes in several product categories where there are frequent introductions of new products and line extensions. The ability to understand consumer preferences and identify technological trends is key to maintaining and improving the competitiveness of its product offerings. The development and introduction of new products, as well as the renovation of current products and product lines, requires significant research and development, marketing and manufacturing expenditures, which the Company may not recoup if the new or renovated products do not gain market acceptance. There are inherent risks associated with new product development, including product launch delays, which could result in the Company not being first to market, higher inventory costs if managed ineffectively, product design failures, product defects and the failure of new products to achieve expected levels of consumer acceptance. As the Company continues to focus on innovation, the Company's financial condition, results of operations or cash flows could be adversely affected in the event that the Company is not able to effectively develop and introduce new or renovated products and line extensions.

Operating Results and Net Earnings May Not Meet Expectations

The Company cannot be sure that its operating results and net earnings will meet expectations. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of its key goals, then the Company's actual performance could vary materially from its expectations. The Company's operating results and net earnings may be influenced by a number of factors, including the following:

The introduction of new products and line extensions by the Company or its competitors

The mix of products with varying profitability sold in a given quarter

The mix of products sold within channels and different countries with varying profitability in a given quarter

The Company's ability to control its internal costs and the cost of raw materials

The effectiveness of the Company's advertising, marketing and promotional programs

Changes in product pricing policies by the Company or its competitors

Consumer and customer reaction to price increases

The ability of the Company to execute its strategies and to maintain and enhance profits in the face of a consolidating retail environment

Changes in accounting policies and accounting standards

The ability of the Company to achieve business plans, including volume growth and pricing plans, as a result of high levels of competitive activity

The ability to maintain key customer relationships

The ability of major customers and other debtors to meet their obligations as they come due

The failure of parties contracting with the Company to perform their obligations and the loss of or inability to renew contracts of importance to the Company's performance

The Company's reliance on brokers to maintain and grow distribution in the grocery channel

The ability to successfully manage regulatory, tax and legal matters, including resolution of pending matters within current estimates

Substantial costs associated with regulatory compliance

The ability of the Company to attract and retain qualified personnel

The ability of the Company to maintain the value of its brands

Expenses for impairment of goodwill, trademarks and other intangible assets and equity investments in excess of projections

Expenses for impairment and obsolescence of property, plant and equipment

The ability to maintain the overall quality of new and existing products

The ability of the Company to penetrate and grow markets and distribution channels

The ability of the Company to manage the impact of foreign currency fluctuations

The impact of foreign import and export restrictions or other trade regulations

The availability and cost of debt financing

Changes to cash flow resulting from tax payments, tax settlements and share repurchases

The ability of the Company to manage inventory at appropriate levels, including decisions regarding obsolescence

The impact of any litigation or product liability claims

Fluctuations in federal, state, local and foreign taxes

The impact of general economic conditions in the United States and in other countries in which the Company currently does business. In addition, sales volume growth, whether due to acquisitions or to internal growth, can place burdens on management resources and financial controls that, in turn, can have a negative impact on operating results. To some extent, the Company plans its expense levels in anticipation of future revenues. If actual revenue falls short of these expectations, operating results and net earnings are likely to be adversely affected.

Regulatory Risks

The Company is subject to numerous environmental laws and regulations that impose various environmental controls on its business operations, including, among other things, the discharge of pollutants into the air and

water, the handling, use, treatment, storage and clean-up of solid and hazardous wastes and the investigation and remediation of soil and groundwater affected by hazardous substances. Such laws and regulations may otherwise relate to various health and safety matters that impose burdens upon the Company's operations. These laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances. The Company believes that its expenditures related to environmental matters have not had, and are not currently expected to have, a material adverse effect on its financial condition, results of operations or cash flows. However, the environmental laws under which the Company operates are complicated and often increasingly more stringent, and may be applied retroactively. Accordingly, there can be no assurance that the Company will not be required to make additional expenditures to remain in or to achieve compliance with environmental laws in the future or that any such additional expenditures will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Some of the Company's products have chemical compositions that are controlled by various state, federal and international laws and regulations. The Company is required to comply with these laws and regulations and seeks to anticipate regulatory developments that could impact the Company's ability to continue to produce and market its products. The Company invests in research and development to maintain product formulations that comply with such laws and regulations. There can be no assurance that the Company will not be required to alter the chemical composition of one or more of the Company's products in a way that will have an adverse effect upon the product's efficacy or marketability. A delay or other inability of the Company to complete product research and development in response to any such regulatory requirements could have a material adverse effect on the Company's financial condition and results of operations.

A focus on environmental regulations relating to Volatile Organic Compounds (VOCs) resulted in a change in 1996 in the formulation of the WD-40 product in the majority of countries where the product is sold, whereby CO₂ was chosen as the aerosol propellant. This change increased the cost of manufacturing WD-40, and the Company increased its selling prices to partially offset the additional cost. In the event of future increases in product cost, the Company may not be in a position to raise selling prices, and therefore an increase in costs could have an adverse effect on the Company's profitability.

In California, VOCs are regulated by the California Air Resources Board (CARB), one of the most influential state environmental regulatory agencies in the United States. In the past, CARB regulations have required a reformulation of the Company's multi-purpose lubricants. The Company successfully reformulated its multi-purpose lubricants to be in full compliance with CARB regulations. The reformulation resulted in increased product costs. CARB continually reviews its allowable levels of VOCs in products and product categories in which the Company's products compete. In the event that CARB regulations require further reformulations of any of the Company's products, the impact of reformulation could have an adverse effect on product performance and the Company's profitability.

In conjunction with the review of the state budget, California authorized CARB to enforce a fee-based system, which would allow it to collect fees from those it governs on the VOC issues. These fees go into CARB's operating budget and help cover shortfalls, and are said to be based on the amount of VOCs a company's product puts into the state's atmosphere. If a similar VOC policy is adopted by other states, the potential impact of fees charged could be material to the Company.

Generally, the manufacturing, packaging, storage, distribution and labeling of the Company's products and the Company's business operations all must comply with extensive federal, state, and foreign laws and regulations. It is possible that the government will increase regulation of the transportation, storage or use of certain chemicals, to enhance homeland security or protect the environment and that such regulation could negatively impact raw material supply or costs.

Resolution of Tax Disputes

Significant judgment is required in determining the Company's effective tax rate and in evaluating tax positions. The Company establishes accruals for certain tax contingencies when, despite the belief that its tax return positions are fully supported, the Company believes that certain positions may not be fully sustained upon challenge by relevant tax authorities. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as progress of tax audits, case law development and emerging legislation. The Company's effective tax rate includes the impact of tax contingency accruals and changes to the accruals, including related interest and penalties, as considered appropriate by management. With respect to tax contingencies, when particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Company's effective tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate. Resolution of a tax issue may require the adjustment of tax assets or tax liabilities or the use of cash in the year of resolution.

Acquisition Risk

Since 2001, the Company has acquired the household product brands: Spot Shot, 2000 Flushes, X-14, Carpet Fresh and 1001. The Company believes that its acquisitions provide opportunities for growth for all of the Company's brands as well as increased efficiencies and cost savings in management, operations and marketing. However, if the Company is not able to successfully integrate acquired products, the Company may not be able to maximize these opportunities. Rather, the failure to integrate these acquired businesses because of difficulties in the assimilation of operations and products, the diversion of management's attention from other business concerns, the loss of key employees or other factors could materially adversely affect the Company's financial results.

One of the Company's strategies is to increase its sales volumes, earnings and the markets it serves through acquisitions of other businesses in the United States and internationally. There can be no assurance that the Company will be able to identify, acquire, or profitably manage additional companies or operations or that it will be able to successfully integrate future acquisitions into its operations. In addition, there can be no assurance that companies or operations acquired will be profitable at their inception or that they will achieve sales levels and profitability that justify the investments made.

Future acquisitions could also result in the incurrence of debt, potentially dilutive issuances of equity securities, contingent liabilities, amortization expenses related to certain intangible assets and/or increased operating expenses, which could adversely affect the Company's results of operations and financial condition. In addition, to the extent that the economic benefits associated with any of the Company's acquisitions diminish in the future, the Company may be required to record write-downs of goodwill, intangible assets or other assets associated with such acquisitions, which could also adversely affect the Company's operating results.

Debt Financing Risk

The Company has historically paid out a large part of its earnings to stockholders in the form of regular quarterly dividends. The past acquisitions have been funded to a large extent by debt. In order to service the debt, the Company is required to use its income from operations to make interest and principal payments required by the terms of the loan agreements. In addition, the Company is required by covenants within the loan agreements to maintain certain financial ratios and compliance with other financial terms.

In fiscal years 2005 and 2007, the Company announced increases to its regular quarterly dividend from \$0.20 to \$0.22 per share in April 2005 and from \$0.22 to \$0.25 in December 2006 (increasing the annual dividend since April 2005 from \$0.80 to \$1.00). However, if operating income is not sufficient to properly service the debt or otherwise allow the Company to maintain compliance with the terms of its loans, the Company could be required to seek additional financing through the issuance of more debt or the sale of equity securities, or the Company

might be required to reduce dividends. An increase in the Company's debt service obligations could result in lower earnings if anticipated gross and net margins are not maintained.

The Company may also incur substantial additional debt in the future for other reasons, including acquisitions. If new debt is added to current debt levels, the Company's related risks could intensify.

Protection of Intellectual Property

The Company relies on trademark, trade secret, patent and copyright laws to protect its intellectual property. The Company cannot be sure that these intellectual property rights will be successfully asserted in the future or that they will not be invalidated or circumvented. In addition, laws of some of the foreign countries in which the Company's products are or may be sold do not protect the Company's intellectual property rights to the same extent as the laws of the United States. The failure of the Company to protect its proprietary information and any successful intellectual property challenges or infringement proceedings against the Company could make it less competitive and could have a material adverse effect on the Company's business, operating results and financial condition.

Intellectual Property Infringement

It is possible that the Company could be found to have violated the trademark, trade secret, copyright, patent or other intellectual property rights of others. Such a finding could result in the need to cease the use of a trademark, trade secret, copyrighted work or patented invention in the Company's business and to pay a substantial amount for past infringement. It could also be necessary to pay a substantial amount in the future if the rights holder is willing to permit the Company to continue to use the intellectual property rights. Either having to cease use or to pay such amounts could make the Company less competitive and could have a material adverse impact on its business, operating results and financial condition.

Volatility in the Insurance Market

The Company re-evaluates its insurance coverage annually. From time to time, insurance contracts may be much more expensive, less protective or even unavailable. In such a case the Company may decide to increase levels of self-insurance, thereby undertaking additional risk.

Product Liability and Other Litigation Risks

While the Company exerts every effort to ensure that the products it develops and markets are safe for consumers, the use of the Company's products may expose the Company to liability claims resulting from such use. Claims could be based on allegations that, among other things, the Company's products contain contaminants, provide inadequate instructions regarding their use or inadequate warnings concerning interactions with other substances. Product liability claims could result in negative publicity that could harm the Company's sales and operating results. In addition, if one of the Company's products were found to be defective, the Company would be required to recall the product, which could result in adverse publicity and significant expenses. The Company maintains product liability insurance that it believes will be adequate to protect the Company from material loss attributable to such claims but the extent of such loss could exceed available limits of insurance or could arise out of circumstances under which such insurance coverage would be unavailable. Other business activities of the Company may also expose the Company to litigation risks, including risks that may not be covered by insurance. If successful claims are asserted by third parties against the Company for uninsured liabilities or liabilities in excess of applicable insured limits of coverage, the Company's business, financial condition and results of operations may be adversely affected.

Additionally, the Company's products may be associated with competitor products or other products in the same category, which may be alleged to have caused harm to consumers. As a result of this association, the Company may be named in unwarranted legal actions. The potential costs of defense may materially affect the Company's results of operations and cash flows in future periods.

Marketing Distributor Relationships

The Company distributes its products throughout the world in one of two ways: the Direct Distribution model, where products are sold directly by the Company to wholesalers and retailers in the U.S., U.K., Canada, Australia, China and a number of other countries, and the Marketing Distributor model, where products are sold to exclusive marketing distributors who in turn sell to wholesalers and retailers. The marketing distributor model is used in certain countries where the Company does not have direct company-owned operations. Instead, the Company partners with local companies who perform the sales, marketing and distribution function. The Company invests time and resources in these relationships. Should key personnel change and/or the relationship change or terminate, the Company could be at risk until such time as a suitable replacement can be found and the Company's key marketing strategies implemented. There is a risk that changes in such marketing distributor relationships that are not managed successfully could result in a disruption in one or more of the affected markets and that such disruption could have an adverse material effect on the Company's business, operating results, financial position and cash flows. Additionally, in some countries, local laws may require substantial payments to terminate existing relationships, which could also have an adverse material effect on the Company's business, operating results, financial position and cash flows.

Natural Disasters and Terrorist Attacks

The occurrences of natural disasters, pandemics, adverse weather events or terrorist attacks may result in the loss of customers, short-term losses in distribution to customers, supply chain disruptions and increased costs of raw materials. Therefore, the occurrence of natural disasters, pandemics, adverse weather events or terrorist attacks could have an adverse material effect on the Company's business, operating results, financial position and cash flows.

Market Expectations

The market price of the Company's stock is based, in part, on market expectations for the Company's sales growth, earnings per share and cash flow. Failure to meet or exceed these expectations could cause the market price of the Company's stock to decline.

Internal Control over Financial Reporting

The management of WD-40 Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes maintaining records in reasonable detail that accurately and fairly reflect the Company's transactions, providing reasonable assurance that receipts and expenditures are made in accordance with management's authorization, and providing reasonable assurance that the unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement in the Company's financial statements would be prevented or detected. The Company's continuing growth and expansion in global markets will place additional significant pressure on the Company's system of internal control over financial reporting. Any failure to maintain an effective system of internal control over financial reporting could limit the Company's ability to report its financial results accurately and timely or to detect and prevent fraud.

ITEM 1B - Unresolved Staff Comments

None.

ITEM 2 - Properties

The Americas

The Company owns and occupies an office and plant facility at 1061 Cudahy Place, San Diego, California 92110. The building consists of office, plant and storage space. The Company leases additional office and storage space in San Diego. The Company leases a regional sales office in Miami, Florida and a research and development office in Springfield, New Jersey. The Company also leases office space in Toronto, Ontario, Canada.

In addition, the Company owns a warehouse facility in Memphis, Tennessee. The Company rents this facility to VML Company L.L.C. (VML), who serves as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company.

Europe

The Company owns and occupies an office and plant facility in Milton Keynes, United Kingdom. The building consists of office, plant and storage space. In addition, the Company leases space for the branch offices in Germany, France, Spain and Italy.

Asia-Pacific

The Company leases office space in Epping, New South Wales, Australia and Shanghai, China. The Company also leases office space for a regional office in Kuala Lumpur, Malaysia.

With minor adjustments, the Company believes that these properties should be sufficient to meet its needs for office and plant facilities for the near future. Increased growth may cause the Company to acquire and/or modify its space in future years.

ITEM 3 - 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 April 19, 2006, a legal action was filed against the Company in the United States District Court, Southern District of California (*Drimmer v. WD-40 Company*). After several of the plaintiff's factual claims were dismissed by way of motion, the plaintiff filed an amended complaint on September 20, 2006, seeking class action status and alleging that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. On August 24, 2007 the Company successfully defeated the plaintiff's attempt to have the case certified as a class action. The plaintiff has petitioned for permission to appeal the District Court's decision and the Company has opposed the petition. If the plaintiff is successful in an appeal and class action certification is granted in this aforementioned legal action, it is reasonably possible that the outcome could have a material adverse effect on the operating results, financial position and cash flows of the Company. There is not sufficient information to estimate the Company's exposure at this time.

The Company has been named as a defendant in an increasing number of lawsuits brought by a growing group of attorneys on behalf of individual plaintiffs who assert that exposure to products that allegedly contain benzene is a cause of certain cancers. The Company is one of many defendants in these legal proceedings whose products are alleged to contain benzene. However, the Company specifies that its suppliers provide constituent ingredients free of benzene, and the Company believes its products have always been formulated without containing benzene. Except for self-insured retention amounts applicable to each separately filed lawsuit, the Company expects that the benzene lawsuits will be adequately covered by insurance and will not have a material impact on the Company's financial condition or results of operations. The Company is vigorously defending these lawsuits.

in an effort to demonstrate conclusively that its products do not contain benzene, and that they have not contained benzene in prior years. The Company is unable to assess the expected cost of defense of these lawsuits in future periods. If the number of benzene lawsuits filed against the Company continues to increase, it is reasonably possible that such costs of defense may materially affect the Company's results of operations and cash flows in future periods.

ITEM 4 - Submission of Matters to a Vote of Security Holders

Not applicable.

Executive Officers of the Registrant

The following table sets forth the names and ages of, and the positions and offices held by, all executive officers within the Company:

Name	Age	Position
Garry O. Ridge	51	President and Chief Executive Officer. Mr. Ridge joined the Company's Australian subsidiary, WD-40 Company (Australia) Pty. Limited, in 1987 as Managing Director and has held several senior management positions prior to his election as CEO in 1997.
Michael J. Irwin	44	Executive Vice President, Chief Financial Officer, and Treasurer. Mr. Irwin joined the Company in May 1995 as Director of U.S. Marketing, and later served as Director of Marketing for The Americas. In April 1998 he was promoted to Vice President, Marketing for The Americas, was named Senior Vice President, Chief Financial Officer and Treasurer in May 2001, and in September 2002 was named Executive Vice President.
Graham P. Milner	53	Executive Vice President, Global Development and Chief Branding Officer. Mr. Milner joined the Company in 1992 as International Director, was appointed Vice President, Sales and Marketing, The Americas, in March 1997, became Senior Vice President, The Americas, in April 1998, and was named Executive Vice President, Global Development and Chief Branding Officer in September of 2002.
Michael L. Freeman	54	Division President, The Americas. Mr. Freeman joined the Company in 1990 as Director of Marketing and was named Director of Operations in 1994. He became Vice President, Administration and Chief Information Officer in December 1996, was promoted to Senior Vice President, Operations in September 2001, and was named Division President, The Americas, in September 2002.
Geoffrey J. Holdsworth	45	Managing Director, WD-40 Company (Australia) Pty. Limited and Shanghai Wu Di Trading Company Limited. Mr. Holdsworth joined the Company's Australian subsidiary, WD-40 Company (Australia) Pty. Limited, in 1996 as General Manager. Prior to joining WD-40 Company, Mr. Holdsworth held sales management positions at Columbia Pelikan Pty. Ltd., Australia.
William B. Noble	49	Managing Director, WD-40 Company Ltd. (U.K.). Mr. Noble joined the Company's Australian subsidiary, WD-40 Company (Australia) Pty. Limited, in 1993 as International Marketing Manager for the Asia Region. He was appointed Managing Director, Europe in December 1996.

All executive officers hold office at the pleasure of the Board of Directors.

PART II**ITEM 5 - Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is traded on The Nasdaq Stock Market (National Market System). As of August 31, 2007, the approximate number of holders of record of the Company's common stock was 1,459. The following table sets forth the range of high and low sales prices on The Nasdaq Stock Market of the Company's common stock for the periods indicated, as reported by Nasdaq.

	SELECTED STOCK INFORMATION					
	FISCAL 2007			FISCAL 2006		
	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
First Quarter	\$ 37.59	\$ 30.56	\$ 0.22	\$ 29.22	\$ 25.35	\$ 0.22
Second Quarter	\$ 35.63	\$ 31.65	\$ 0.25	\$ 31.85	\$ 26.00	\$ 0.22
Third Quarter	\$ 37.86	\$ 30.79	\$ 0.25	\$ 33.70	\$ 29.41	\$ 0.22
Fourth Quarter	\$ 39.31	\$ 31.90	\$ 0.25	\$ 35.40	\$ 29.91	\$ 0.22

The Company has historically paid regular quarterly cash dividends on its common stock. The Board of Directors of the Company presently intends to continue the payment of regular quarterly cash dividends on the common stock. The Company's ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

Issuance of Unregistered Securities

On March 1, 2007, the Company issued a total of 3,896 shares of its common stock to four of its non-employee directors pursuant to the Company's Amended and Restated WD-40 Company 1999 Non-Employee Director Restricted Stock Plan (the Plan). The shares were issued in lieu of cash compensation for all or part of each electing director's annual fee for services as a director. The number of shares issued was determined according to a formula set forth in the Plan equal to the total compensation to be paid in shares divided by 90% of the closing price of the Company's shares on the first business day of March 2007. On March 1, 2007, the Company issued shares to directors under the Plan with an aggregate market value of \$125,000 in lieu of cash compensation in the amount of \$113,000. The issuance of the shares of the Company's common stock to the directors was exempt from registration under the Securities Act of 1933 (the Act) pursuant to Section 4(2) of the Act as a transaction by an issuer not involving a public offering. The shares issued to directors are subject to certain restrictions upon transfer.

Repurchase of Company Securities

On March 27, 2007, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect for up to twelve months, the Company is authorized to acquire up to \$35.0 million of the Company's outstanding shares. As of August 31, 2007, the Company has acquired 500,000 shares at a total cost of \$17.3 million under the plan.

The following table presents the total number of shares repurchased during the last quarter of fiscal year 2007:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number	(d) Maximum
			of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
June 1 - June 30		\$		\$ 35,000,000
July 1 - July 31	360,600	\$ 34.37	360,600	\$ 22,593,447
August 1 - August 31	139,400	\$ 35.21	139,400	\$ 17,679,718
Total	500,000	\$ 34.60	500,000	

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Administrative costs, such as commissions and handling fees, related to the stock repurchase program totaled approximately \$20,000 in the last quarter of fiscal year 2007. If these costs were included in the average price paid per share, the average price would equal \$34.64.

ITEM 6 - Selected Financial Data

The following data has been derived from the Company's audited consolidated financial statements. The data should be read in conjunction with such consolidated financial statements and other financial information appearing elsewhere herein.

<i>(in thousands, except per share amounts)</i>	Year ended August 31,				
	2007	2006	2005	2004	2003
Net sales ¹	\$ 307,816	\$ 286,916	\$ 263,227	\$ 242,467	\$ 238,140
Cost of products sold	158,954	148,516	133,833	116,944	115,928
Gross profit	148,862	138,400	129,394	125,523	122,212
Operating expenses	99,846	92,378	81,974	80,074	72,460
Income from operations	49,016	46,022	47,420	45,449	49,752
Interest and other (expense) income, net	(1,841)	(3,164)	(4,555)	(6,596)	(6,357)
Income before income taxes	47,175	42,858	42,865	38,853	43,395
Provision for income taxes	15,641	14,746	15,067	13,210	14,754
Net income	\$ 31,534	\$ 28,112	\$ 27,798	\$ 25,643	\$ 28,641
<u>Earnings per common share</u>					
Basic	\$ 1.85	\$ 1.67	\$ 1.67	\$ 1.52	\$ 1.73
Diluted	\$ 1.83	\$ 1.66	\$ 1.65	\$ 1.50	\$ 1.71
Dividends per share	\$ 0.97	\$ 0.88	\$ 0.84	\$ 0.80	\$ 0.80
Total assets	\$ 283,186	\$ 268,475	\$ 254,253	\$ 236,775	\$ 236,658
Long-term obligations ²	\$ 61,057	\$ 69,077	\$ 77,487	\$ 81,822	\$ 86,781

¹ The Company completed the acquisition of the 1001 business (1001) during fiscal year 2004. Sales of the 1001 brand added \$11.2 million, \$9.4 million, \$8.9 million and \$3.2 million in household products sales in fiscal years 2007, 2006, 2005 and 2004, respectively.

² Long-term obligations include long-term debt, deferred employee benefits and other long-term liabilities and long-term deferred tax liabilities, net.

ITEM 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis (MD&A) is intended to help the reader understand the WD-40 Company. MD&A is presented in ten sections: Overview, Summary Statement of Operations, Highlights, Results of Operations, Liquidity and Capital Resources, Stock-Based Compensation, Critical Accounting Policies, Recent Accounting Pronouncements, Transactions with Related Parties and Quantitative and Qualitative Disclosures about Market Risk. MD&A is provided as a supplement to, and should be read in conjunction with, the Company's consolidated financial statements and the accompanying notes contained in Item 15.

In MD&A, we, our, us and the Company refer to WD-40 Company and its wholly-owned subsidiaries, unless the context requires otherwise. Amounts and percents in tables and discussions may not total due to rounding.

OVERVIEW

The Company markets two lubricant brands known as WD-40 and 3-IN-ONE Oil, two heavy-duty hand cleaner brands known as Lava and Solvol, and six household product brands known as X-14 hard surface cleaners and automatic toilet bowl cleaners, 2000 Flushes automatic toilet bowl cleaner, Carpet Fresh and No Vac rug and room deodorizers, Spot Shot aerosol and liquid carpet stain removers and 1001 carpet and household cleaners and rug and room deodorizers. These brands are sold in various locations around the world. Lubricant brands are sold worldwide in markets such as North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Household product brands are currently sold primarily in North America, the U.K., Australia and the Pacific Rim. Heavy-duty hand cleaner brands are sold primarily in the U.S. and Australia.

SUMMARY STATEMENT OF OPERATIONS

(dollars in thousands, except per share amounts)

	Fiscal Year Ended August 31,			Fiscal Year Ended August 31,		
	2007	2006	% Change	2006	2005	% Change
Net sales	\$ 307,816	\$ 286,916	7%	\$ 286,916	\$ 263,227	9%
Gross profit	\$ 148,862	\$ 138,400	8%	\$ 138,400	\$ 129,394	7%
Income from operations	\$ 49,016	\$ 46,022	7%	\$ 46,022	\$ 47,420	(3)%
Net income	\$ 31,534	\$ 28,112	12%	\$ 28,112	\$ 27,798	1%
Earnings per common share (diluted)	\$ 1.83	\$ 1.66	10%	\$ 1.66	\$ 1.65	1%

Highlights

In fiscal year 2007, sales in Europe and Asia-Pacific increased 22% and 15%, respectively, compared to the prior fiscal year. Sales in the Americas were essentially flat compared to the prior fiscal year.

In fiscal year 2007, lubricant sales were up 14%, household product sales were down 5%, and hand cleaner sales were down 3% versus fiscal year 2006.

Changes in foreign currency exchange rates contributed to the increase in our sales as well as the increase in our expenses. Fiscal year 2007 results translated at last fiscal year's exchange rates would have produced sales of \$298.5 million and net income of \$30.4 million. The impact of the change in foreign currency exchange rates year over year positively affected sales and net income for fiscal year 2007 by \$9.3 million and \$1.1 million, respectively.

The categories in which the Company's household products are sold are very competitive by nature. For the fiscal year ended August 31, 2007, sales of the Company's household products in the U.S. were down 10% versus the prior fiscal year as a result of temporary decreases in distribution, lost distribution, category declines, promotional timing and customer purchasing patterns. The decreases in

the U.S. were partially offset by increases in the U.K. and Australia of 20% and 64%, respectively. These increases were primarily driven by growth of Carpet Fresh No Vac sales, which is sold under the 1001 brand name in the U.K. and under the No Vac brand name in Australia.

We continue to be concerned about rising costs of components and raw materials. In recent years, we have incurred continuing cost increases. To combat the rise in costs, the Company implemented price increases on certain products during the third quarter of fiscal years 2006 and 2005. In addition, the Company has created a cost reduction team to focus on cost saving initiatives as well as supply chain opportunities.

We continue to be focused and committed to new product development under our brand names. We see innovation and renovation as important factors to the long-term success of our brands, and we intend to continue our commitment to work on future product, packaging and promotional innovations and renovations.

Selling, general and administrative (SG&A) expenses were up 9% during fiscal year 2007 compared to the prior fiscal year due to increased employee-related costs, legal expenses, commissions, the impact of foreign currency exchange rate changes and other miscellaneous expenses.

During fiscal year 2007, the Company began direct operations in China. For the fiscal year ended August 31, 2007, SG&A costs related to the direct operations in China totaled \$1.4 million, which represents 21% of the Company's \$6.8 million increase in SG&A expenses over the prior fiscal year.

Advertising and sales promotion expenses were up 3% in fiscal year 2007 compared to the prior fiscal year. Advertising and sales promotion expenses were up due to increased consumer broadcast, print media and other advertising activities in the U.S., Europe and Australia.

On March 27, 2007, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect for up to twelve months, the Company is authorized to acquire up to \$35 million of the Company's outstanding shares. As of August 31, 2007, the Company has acquired 500,000 shares at a total cost of \$17.3 million under the plan.

RESULTS OF OPERATIONS

Year Ended August 31, 2007 Compared with the Year Ended August 31, 2006

Net Sales

Net Sales by Segment (in thousands)	Fiscal Year Ended August 31,			
	2007	2006	\$ Change	% Change
Americas	\$ 187,146	\$ 186,769	\$ 377	0%
Europe	96,485	79,101	17,384	22%
Asia-Pacific	24,185	21,046	3,139	15%
Total net sales	\$ 307,816	\$ 286,916	\$ 20,900	7%

Please refer to the discussion under *Segment Results* included later in this section for further detailed results by segment. Changes in foreign currency exchange rates compared to the prior fiscal year contributed to the increase in the Company's sales. The current fiscal year results translated at last fiscal year's exchange rates would have produced sales of \$298.5 million, thus, the impact of the change in foreign currency exchange rates year over year positively affected fiscal year 2007 sales by \$9.3 million, or 3%.

Net Sales by Product Line (in thousands)	Fiscal Year Ended August 31,			
	2007	2006	\$ Change	% Change
Lubricants	\$ 216,300	\$ 190,468	\$ 25,832	14%
Household products	85,106	89,822	(4,716)	(5)%
Hand cleaners	6,410	6,626	(216)	(3)%
Total net sales	\$ 307,816	\$ 286,916	\$ 20,900	7%

By product line, sales of lubricants include WD-40 and 3-IN-ONE; sales of household products include Carpet Fresh, No Vac, X-14, 2000 Flushes, Spot Shot and 1001; and hand cleaner sales include Lava and Solvol.

Gross Profit

Gross profit was \$148.9 million, or 48.4% of sales in fiscal year 2007, compared to \$138.4 million, or 48.2% of sales in fiscal year 2006. Although gross margin percentage was slightly up, the Company continued to experience increases in costs of products, which have negatively affected gross margins in all of the Company's regions. The rise in costs of products has been due to the significant increase in costs for components and raw materials, including aerosol cans and petroleum-based products, as well as a change in product mix. The mix of products sold in fiscal year 2007 included an increased amount of higher cost promotional offerings. As a result of the general upward trend of costs in the market, we remain concerned about the possibility of continued rising costs of components, raw materials and finished goods.

The increase in pricing of certain products worldwide, which occurred during last fiscal year's third quarter, partially offset the rise in costs of products and added approximately 1.3% to gross margin percentage in fiscal year 2007 compared to fiscal year 2006. Although the price increases helped to mitigate the impact of rising costs on gross margin percentage, the benefit from the price increases was partially offset by the continued cost increases, as well as changes in product mix. In an effort to further reduce the impact of increased costs on gross margin percentage, the Company has begun to implement several cost savings projects. These projects were identified by a cost reduction team that is focused on gross margin improvement, which includes supply chain cost savings initiatives. Additionally, the Company believes that innovation will be a key factor in improving gross margin percentage in the long term.

The rise in costs of products was also partially offset by a decrease in advertising, promotional and other discounts, which are recorded as a reduction to sales. The decrease in advertising, promotional and other discounts positively impacted gross margin percentage by 0.5%. This decrease resulted from both timing and reductions in discounts offered during the fiscal year. Examples of advertising, promotional and other discounts include coupon redemptions, consideration and allowances given to retailers for space in their stores, consideration and allowances given to obtain favorable display positions in retailers' stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives. The timing of these activities, as well as shifts in product mix, may cause fluctuations in gross margin percentage from period to period.

Note that the Company's gross margins may not be comparable to those of other reporting entities, since some entities 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 distribution to our customers from our contract packagers, and include these costs in selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) in fiscal year 2007 increased to \$78.5 million, or 25.5% of sales, from \$71.8 million, or 25.0% of sales, in the prior fiscal year. The increase in SG&A was largely attributable to increases in employee-related costs, professional services costs, miscellaneous expenses and the impact of foreign currency translation. Certain employee-related costs, which include salaries, profit sharing and other fringe benefits, increased \$3.0 million versus the prior fiscal year as a result of annual compensation increases, relocation expenses and additional staffing to support global sourcing and inventory management, direct operations in China and product introductions. The increase in the above employee-related costs was partially offset by a \$0.8 million decrease in bonus expense as several regions did not achieve profit and performance targets that had been met in the prior fiscal year. Costs for professional services increased \$0.9 million primarily as a result of increased legal costs. Miscellaneous expenses increased \$1.4 million, which included increased commissions, meeting expenses, travel costs and bad debt expense. Also contributing to the increase in SG&A was \$2.4 million related to foreign currency exchange rates. Fiscal year 2007 SG&A expenses translated at last fiscal year's exchange rates would have produced total SG&A expenses of \$76.1 million.

The Company continued its research and development investment in support of its focus on innovation and renovation. Research and development costs were \$3.8 million in each of fiscal years 2007 and 2006. The Company's new-product development team, known as Team Tomorrow, 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 the Company's current and prospective outsource suppliers.

Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses increased to \$20.7 million in fiscal year 2007, up from \$20.1 million in fiscal year 2006 and, as a percentage of sales, decreased to 6.7% in fiscal year 2007 from 7.0% in fiscal year 2006. The increase was related to increased consumer broadcast, print media and other advertising activities in the U.S., Europe and Australia.

As a percentage of sales, advertising and sales promotion expenses may fluctuate period to period based upon the type of marketing activities employed by the Company and the period in which the costs are incurred. The costs of certain promotional activities are required to be recorded as reductions to sales, while others remain in advertising and sales promotion expenses. In fiscal year 2007, the total promotional costs recorded as reductions to sales were \$16.7 million versus \$15.6 million in fiscal year 2006. Therefore, the Company's total investment in advertising and sales promotion activities totaled \$37.4 million in fiscal year 2007 versus \$35.7 million in fiscal year 2006.

Amortization of Intangible Asset Expense

Amortization of intangible asset expense was \$583,000 in fiscal year 2007, compared to \$532,000 in the prior fiscal year. The amortization relates to the non-contractual customer relationships intangible asset acquired in the 1001 acquisition, which was completed in April 2004. This intangible asset is being amortized on a straight-line basis over its estimated eight-year life.

Income from Operations

Income from operations was \$49.0 million, or 15.9% of sales in fiscal year 2007, compared to \$46.0 million, or 16.0% of sales in fiscal year 2006. The increase in income from operations was due to the items discussed above.

Interest Expense, net

Interest expense, net was \$2.0 million compared to \$3.5 million during the fiscal years ended August 31, 2007 and 2006, respectively. The change in interest expense, net was primarily due to the reduced principal balance on

long-term borrowings resulting from the annual \$10.7 million principal payments made in October 2006 and October 2005, as well as to increased interest income resulting from higher cash balances in fiscal year 2007 versus the prior fiscal year.

Other Income, net

Other income, net was \$177,000 in fiscal year 2007 compared to \$339,000 in the prior fiscal year, a decrease of \$162,000, which was due to foreign currency exchange losses in fiscal year 2007 compared to foreign currency exchange gains in the prior fiscal year. Other income, net also includes rental income from VML Company L.L.C. The Company owns and rents a warehouse facility to VML in Memphis, Tennessee. VML serves as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company.

Provision for Income Taxes

The provision for income taxes was 33.16% of income before income taxes in fiscal year 2007, a decrease from 34.41% in fiscal year 2006. The decrease in tax rate was primarily due to favorable rulings on foreign tax matters, a one-time benefit from the extraterritorial income (ETI) deduction from prior years and the impact of the expiration of federal statutes of limitations. These items created one-time benefits that totaled approximately \$0.9 million in tax benefits. The Company does not anticipate tax benefits of this nature to be ongoing. Additionally, the tax benefit from municipal bond interest also contributed to the decrease in the fiscal year 2007 tax rate. The overall decrease in tax rate was partially offset by the impact of reduced low income housing credits and the phase out of the ETI deduction in the current fiscal year.

Net Income

Net income was \$31.5 million, or \$1.83 per common share on a fully diluted basis for the fiscal year ended August 31, 2007, compared to \$28.1 million, or \$1.66 per common share for the prior fiscal year. The change in foreign currency exchange rates year over year had a positive impact of \$1.1 million on fiscal year 2007 net income. Fiscal year 2007 results translated at last fiscal year's foreign currency exchange rates would have produced net income of \$30.4 million.

Segment Results

Following is a discussion of sales by region for the fiscal years ended August 31, 2007 and 2006.

Americas

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2007	2006	\$ Change	% Change
Lubricants	\$ 111,077	\$ 102,732	\$ 8,345	8%
Household products	70,775	78,553	(7,778)	(10)%
Hand cleaners	5,294	5,484	(190)	(3)%
Sub-total	\$ 187,146	\$ 186,769	\$ 377	0%
% of consolidated	61%	65%		

In the Americas, changes in foreign currency exchange rates compared to the prior fiscal year did not significantly impact fiscal year 2007 sales. The fiscal year 2007 results translated at last fiscal year's exchange rates would have produced sales of \$186.8 million in this region. Thus, the impact of the change in foreign currency exchange rates year over year positively affected sales in fiscal year 2007 by approximately \$0.3 million.

The increase in lubricant sales in the Americas during fiscal year 2007 compared to the prior fiscal year was the result of WD-40 sales growth in the U.S., Latin America and Canada where sales increased by 10%, 7% and 6%,

respectively. The WD-40 sales increase in the U.S. was the result of increased promotional activity and the growth of the WD-40 Smart Straw. The WD-40 sales increase in Latin America was primarily the result of increased distribution, as well as increased promotions. The increase of WD-40 sales in Canada was the result of the growth of the WD-40 Smart Straw. Price increases implemented on certain products during the third quarter of fiscal year 2006 also contributed to the overall lubricant sales growth in the Americas in fiscal year 2007. The increase in WD-40 sales was partially offset by a decrease in 3-IN-ONE sales in the U.S., which was the result of lost distribution to a key customer.

Household product sales in fiscal year 2007 were down \$7.8 million, or 10%, compared to fiscal year 2006 primarily due to declines in the U.S. Sales in the U.S. decreased by \$7.5 million, or 10%, due to lower sales of Spot Shot, X-14, 2000 Flushes and Carpet Fresh. These declines were the result of several factors, including temporarily lost or decreased distribution compared to fiscal year 2006, declining categories and the effect of competitive factors within and among their product categories that are further described below.

Spot Shot sales declined 7% in the U.S. during fiscal year 2007 compared to the prior fiscal year due to reduced sales to key customers, declines in the aerosol spot and stain category, significant competitor activity and reduced promotional activity. During the first quarter of the current fiscal year, a key customer temporarily replaced Spot Shot with seasonal items, which had not occurred in the prior fiscal year first quarter. The Company regained distribution with this customer during the second quarter of the current fiscal year. Additionally, certain promotional activity during the prior fiscal year was not repeated in fiscal year 2007. The declines in the aerosol category are due to retailers reducing shelf space for aerosol spot and stain removers. This decrease was partially offset by expanded distribution of the Spot Shot trigger product with a key customer and increased distribution in the grocery trade channel versus the prior fiscal year. The Spot Shot trigger product competes in the non-aerosol spot and stain category, which is larger than the aerosol spot and stain category. The Company has also committed both marketing and research and development resources to support and to create innovation for the Spot Shot brand to take advantage of key trends in the marketplace and expand its distribution base.

U.S. sales of the X-14 hard surface cleaners decreased 28% in fiscal year 2007 versus the prior fiscal year due primarily to lost distribution. In an effort to offset these losses and generate growth, the Company has invested significant time and resources researching and renovating the X-14 brand by repositioning the brand as the bathroom expert and repackaging the product line to better communicate and deliver product performance. This repositioning and repackaging was launched during the second quarter of fiscal year 2007 and will continue into the Company's fiscal year 2008. The Company continues to commit additional marketing and research and development resources to support and to create innovation around the bathroom expert positioning.

U.S. sales of 2000 Flushes/X-14 automatic toilet bowl cleaners were down 11% in fiscal year 2007 compared to fiscal year 2006 due to reduced distribution with a key customer, promotional timing and competitive innovation. The reduced distribution with a key customer was the result of the decline in sales velocity of in-bowl products, as consumer tastes have shifted toward the drop-in and manual cleaning categories. As a result, the Company has shifted its product line focus toward the drop-in category. Overall, sales in the entire toilet bowl cleaning category have declined in the grocery trade channel. To generate growth for the brand, the Company has also committed both marketing and research and development resources to support and to create next generation innovation around the automatic toilet bowl cleaner category.

Sales of Carpet Fresh in the U.S. declined 6% in fiscal year 2007 compared to the prior fiscal year due to competitor activity, category declines in the mass retail and grocery trade channels, promotional timing and the timing of sales to a key customer versus the prior fiscal year. This decline was partially offset by expanded distribution with a key customer during the second quarter of the current fiscal year. In recent years, retailers have reduced shelf space for traditional rug and room deodorizers for reallocation to other air care products. As a result, the rug and room deodorizer category as a whole has declined in the mass retail and grocery trade channels. The Company continues to refine its marketing, promotions and pricing strategies, and has committed

research and development resources to create innovation for the Carpet Fresh brand, including new fragrances and packaging enhancements that were introduced throughout fiscal year 2007.

The Company's U.S. household products compete in a highly competitive market and currently face diminishing product categories or shifts within these categories, as well as significant competitor activity. The Company is addressing these challenges through its focus on innovation and the continued renovation of its household brands. The Company's innovation and renovation efforts are focused in the areas of new product offerings, packaging enhancements and promotional strategies.

Sales of heavy-duty hand cleaners for the Americas decreased 3% in fiscal year 2007 compared to fiscal year 2006 as a result of decreased promotional activity. This decrease was partially offset by increased distribution to a key customer during the third quarter of fiscal year 2007. Although sales of heavy-duty hand cleaners decreased in fiscal year 2007, distribution remains consistent through the grocery trade and other classes of trade.

For the Americas, 86% of sales came from the U.S., and 14% came from Canada and Latin America in fiscal year 2007, compared to the distribution in fiscal year 2006, when 87% of sales came from the U.S., and 13% came from Canada and Latin America.

Europe

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2007	2006	\$ Change	% Change
Lubricants	\$ 85,299	\$ 69,742	\$ 15,557	22%
Household products	11,186	9,359	1,827	20%
Sub-total	\$ 96,485	\$ 79,101	\$ 17,384	22%

% of consolidated

31% 28%

For the fiscal year ended August 31, 2007, sales in Europe grew to \$96.5 million, up \$17.4 million, or 22%, over sales in the prior fiscal year. Changes in foreign currency exchange rates compared to the prior fiscal year partially contributed to the increase in sales. Fiscal year 2007 results translated at last fiscal year's exchange rates would have produced sales of \$88.1 million in this region. Thus, the impact of the change in foreign currency exchange rates year over year positively affected fiscal year 2007 sales by approximately \$8.4 million, or 10%.

The countries where the Company sells through a direct sales force include the U.K., Spain, Portugal, Italy, France, Germany, the Netherlands, Denmark and Austria. Sales from these countries increased 22% in fiscal year 2007 versus fiscal year 2006. Sales from these countries also accounted for 70% of the region's sales in fiscal year 2007, down from 71% in the prior fiscal year. Percentage increases in sales in U.S. dollars across the various parts of the region over the prior fiscal year are as follows: the U.K., 15%; France, 23%; the German sales region, 30%; Spain/Portugal, 28%; and Italy, 26%. These direct sales markets are expected to continue to be important contributors to the region's growth. In the long term, the number of countries where the Company sells through a direct sales force is expected to increase.

The U.K. market benefited from sales growth of the 1001 brand and 3-IN-ONE. The increase in 1001 brand sales was the result of increased distribution and awareness of 1001 No Vac, as well as increased media support for the brand. The increase in 3-IN-ONE sales was due to the increased distribution of the 3-IN-ONE Professional line of products. The sales growth in France was the result of increased distribution of the WD-40 brand, including the WD-40 Smart Straw. Also contributing to the sales growth in France was increased distribution of the 3-IN-ONE Professional line of products. The sales growth in the German sales region, which includes Germany, the Netherlands, Denmark and Austria, was the result of increased awareness and penetration of the WD-40 brand, the continued growth of the WD-40 Smart Straw and the further development of direct sales into the Netherlands. Sales in Spain/Portugal were up as a result of increased distribution of the WD-40 brand, as well as the continued development of the WD-40 Smart Straw. Sales of 3-IN-ONE also contributed to the growth in

Spain/Portugal as a result of increased distribution of the 3-IN-ONE Professional line of products. The sales growth in Italy was also the result of increased awareness and penetration of the WD-40 brand and the continued growth of the WD-40 Smart Straw.

In the countries in which the Company sells through local distributors, sales increased 23% in fiscal year 2007 versus the prior fiscal year. The sales growth in the distributor markets was the result of the continued growth in Eastern and Northern Europe and the Middle East. The distributor market accounted for approximately 30% of the total Europe segment sales in fiscal year 2007, up from 29% in fiscal year 2006. These markets continue to experience growth in distribution and usage resulting from increased market penetration and brand awareness.

Asia-Pacific

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2007	2006	\$ Change	% Change
Lubricants	\$ 19,924	\$ 17,994	\$ 1,930	11%
Household products	3,145	1,910	1,235	65%
Hand cleaners	1,116	1,142	(26)	(2)%
Sub-total	\$ 24,185	\$ 21,046	\$ 3,139	15%
% of consolidated	8%	7%		

In the Asia-Pacific region, which includes Australia and Asia, total sales in fiscal year 2007 were \$24.2 million, up \$3.1 million, or 15%, compared to fiscal year 2006. Changes in foreign currency exchange rates compared to the prior fiscal year contributed to the increase in sales. Fiscal year 2007 results translated at last fiscal year's exchange rates would have produced sales of \$23.6 million in this region. Thus, the impact of the change in foreign currency exchange rates year over year positively affected sales in fiscal year 2007 by approximately \$0.6 million, or 3%.

Sales in Australia were up 29% in fiscal year 2007 compared to fiscal year 2006 due to sales growth of No Vac as a result of new product introductions, increased distribution and a television media campaign. No Vac continues to gain market share in Australia. Lubricant sales also contributed to the growth in Australia as a result of increased promotional activity and the continued launch of the WD-40 Smart Straw.

Sales in Asia were up 8% in fiscal year 2007 compared to the prior fiscal year primarily due to increased WD-40 sales in China and increased promotional activity. Sales in China benefited from the development of direct sales activity. Historically, the Company has sold to Asia through third party marketing distributors. However, to help accelerate the growth in this region, the Company began direct operations in China in the current fiscal year. Sales across other parts of the Asian region were also up, including in the Philippines, Indonesia, Malaysia and Thailand. This region represents long-term growth potential for the Company.

Year Ended August 31, 2006 Compared with the Year Ended August 31, 2005

Net Sales

Net Sales by Segment (in thousands)	Fiscal Year Ended August 31,			
	2006	2005	\$ Change	% Change
Americas	\$ 186,769	\$ 176,106	\$ 10,663	6%
Europe	79,101	68,353	10,748	16%
Asia-Pacific	21,046	18,768	2,278	12%
Total net sales	\$ 286,916	\$ 263,227	\$ 23,689	9%

Please refer to the discussion under **Segment Results** included later in this section for further detailed results by segment. Changes in foreign currency exchange rates compared to fiscal year 2005 negatively impacted the growth of the Company's sales. Fiscal year 2006 results translated at fiscal year 2005 exchange rates would have produced sales of \$289.0 million, thus, the impact of the change in foreign currency exchange rates year over year negatively affected fiscal year 2006 sales by \$2.1 million, or 1%.

Net Sales by Product Line (in thousands)	Fiscal Year Ended August 31,			
	2006	2005	\$ Change	% Change
Lubricants	\$ 190,468	\$ 174,084	\$ 16,384	9%
Household products	89,822	82,237	7,585	9%
Hand cleaners	6,626	6,906	(280)	(4)%
Total net sales	\$ 286,916	\$ 263,227	\$ 23,689	9%

By product line, sales of lubricants include WD-40 and 3-IN-ONE; sales of household products include Carpet Fresh, No Vac, X-14, 2000 Flushes, Spot Shot and 1001; and hand cleaner sales include Lava and Solvol.

Gross Profit

Gross profit was \$138.4 million, or 48.2% of sales in fiscal year 2006, compared to \$129.4 million, or 49.2% of sales in fiscal year 2005. The decrease in the gross margin percentage was primarily attributable to the increase in cost of products sold. The increase in cost of products negatively affected gross margins in all of the Company's regions. This increase was primarily due to the significant rise in costs for components and raw materials, including aerosol cans and petroleum-based products. Gross margin percentage was also negatively impacted during fiscal year 2006 as the Company incurred costs associated with impaired, slow-moving and reworked inventory. As a result, the Company focused on reducing excess inventory of certain products and offered significant discounts, which reduced the gross margin percentage. The discounts and costs associated with the impaired, slow-moving and reworked inventory negatively impacted the gross margin percentage by 0.4% in fiscal year 2006. The increase in cost of products sold and the costs associated with impaired, slow-moving and reworked inventory were partially offset by a decrease in advertising, promotional and other discounts, which positively impacted gross margin percentage by 0.3%. This decrease resulted from both timing and reductions in certain traditional advertising and promotional activities that had experienced declines in consumer response. Advertising, promotional and other discounts, which are recorded as a reduction to sales, include coupon redemptions, consideration and allowances given to retailers for space in their stores, consideration and allowances given to obtain favorable display positions in retailers' stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives. The timing of these activities, as well as shifts in product mix, may cause fluctuations in gross margin percentage from period to period.

As the result of the continued trend of rising costs, the Company implemented price increases on certain products. The Company began to experience rising costs during the fourth quarter of fiscal year 2004 and has continued to experience further cost increases. To reduce the impact of these cost increases, the Company implemented price increases on certain products during the third quarter of fiscal year 2005. However, costs of components, raw materials and finished goods continued to rise since the third quarter of fiscal year 2005. As a result, the Company implemented additional price increases during the third quarter of fiscal year 2006. The increase in pricing of certain products worldwide added approximately 1.6% to gross margin percentage in fiscal year 2006 compared to fiscal year 2005.

Note that the Company's gross margins may not be comparable to those of other reporting entities, since some entities 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 distribution to our customers from our contract packagers, and include these costs in selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased to \$71.8 million in fiscal year 2006, up from \$63.5 million in fiscal year 2005 and, as a percentage of sales, increased to 25.0% in fiscal year 2006 from 24.1% in fiscal year 2005. The increase in SG&A was largely attributable to increases in bonus expense, employee-related costs, stock-based compensation expense due to the adoption of a new accounting pronouncement, research and development costs, freight costs and professional services. Bonus expense increased \$2.8 million versus fiscal year 2005, as many regions did not achieve profit and other performance expectations in fiscal year 2005, which resulted in a lower fiscal year 2005 bonus expense. Employee-related costs, which include salaries, profit sharing and other fringe benefits, increased \$1.9 million versus fiscal year 2005 as a result of annual compensation increases and additional staffing. Beginning in fiscal year 2006, the Company adopted SFAS No. 123R, Share-Based Payment, which requires the expensing of stock options. The adoption of this new accounting pronouncement resulted in a \$1.8 million incremental increase in compensation expense during fiscal year 2006. Research and development costs increased \$1.3 million due to increased new product development activity. Freight costs increased \$0.6 million due to sales growth and increased fuel surcharges. The \$0.7 million increase in professional services costs related to information technology, marketing, legal and tax-related consulting.

Also contributing to the increase in SG&A was \$1.2 million of increased miscellaneous expenses such as depreciation and amortization, overhead expenses, insurance expenses, travel expenses and meeting expenses. These increases were partially offset by \$1.0 million of decreased bad debt expense primarily related to recoveries of bad debt, including a preference claim, \$0.4 million of decreased sales commissions and \$0.1 million of decreased investor relations costs, as well as \$0.5 million of foreign currency translation impact. Fiscal year 2006 SG&A expenses translated at fiscal year 2005 exchange rates would have produced total SG&A expenses of \$72.3 million.

The Company continued its research and development investment in support of its focus on innovation. Research and development costs were \$3.8 million in fiscal year 2006 compared to \$2.5 million in fiscal year 2005. The Company's new-product development team, known as Team Tomorrow, 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 the Company's current and prospective outsource suppliers.

Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses increased to \$20.1 million in fiscal year 2006, up from \$17.9 million in fiscal year 2005 and, as a percentage of sales, increased to 7.0% in fiscal year 2006 from 6.8% in fiscal year 2005. In fiscal year 2005, marketing investment was concentrated in the first quarter. However, marketing investment in the U.S. was reduced during the remainder of fiscal year 2005 as the Company reevaluated the market dynamics and its strategies to determine which programs would be the most effective. In fiscal year 2006, the Company began to increase marketing investment in the second quarter and continued during the remainder of fiscal year 2006, as the Company aligned its advertising and sales promotion activities with the distribution of its current and new products.

As a percentage of sales, advertising and sales promotion expenses may fluctuate period to period based upon the type of marketing activities employed by the Company, as the costs of certain promotional activities are required to be recorded as reductions to sales, and others remain in advertising and sales promotion expenses. In fiscal year 2006, the total promotional costs recorded as reductions to sales were \$15.6 million versus \$18.8 million in fiscal year 2005. Therefore, the Company's total investment in advertising and sales promotion activities totaled \$35.7 million in fiscal year 2006 versus \$36.7 million in fiscal year 2005.

Amortization of Intangible Asset Expense

Amortization of intangible asset expense was \$532,000 in fiscal year 2006, compared to \$552,000 in fiscal year 2005. The amortization relates to the non-contractual customer relationships intangible asset acquired in the 1001 acquisition, which was completed in April 2004. This intangible asset is being amortized over its estimated eight-year life.

Income from Operations

Income from operations was \$46.0 million, or 16.0% of sales in fiscal year 2006, compared to \$47.4 million, or 18.0% of sales in fiscal year 2005. The decrease in income from operations as a percentage of sales was due to the items discussed above.

Interest Expense, net

Interest expense, net was \$3.5 million compared to \$5.1 million for the fiscal years ended August 31, 2006 and 2005, respectively. The change in interest expense, net was primarily due to reduced principal balance on long-term borrowings resulting from a \$10 million principal payment made in May 2005 and a \$10.7 million principal payment made in October 2005.

Other Income, net

Other income, net was \$339,000 in fiscal year 2006, compared to \$578,000 in fiscal year 2005, a decrease of \$239,000, which was due to reduced foreign currency exchange gains. Other income, net also includes rental income from VML Company, L.L.C. The Company owns and rents a warehouse facility to VML in Memphis, Tennessee. VML serves as the Company's contract manufacturer for certain household products and acts as a warehouse distributor for other product lines of the Company.

Provision for Income Taxes

The provision for income taxes was 34.41% of income before income taxes for fiscal 2006, a decrease from 35.15% in fiscal year 2005. The decrease in tax rate was due to the benefits of I.R.C. Section 199 related to qualified production activities provided by the American Jobs Creation Act of 2004, as well as foreign tax credits and the tax benefit of municipal bond interest. These tax benefits were partially offset by the impact of reduced low income housing credits, the growth of worldwide income and non-deductible stock-based compensation expense related to stock options granted to some non-U.S. taxpayers.

Net Income

Net income was \$28.1 million, or \$1.66 per common share on a fully diluted basis for the fiscal year ended August 31, 2006, compared to \$27.8 million, or \$1.65 per common share for the fiscal year ended August 31, 2005. The change in foreign currency exchange rates year over year had a negative impact of \$0.2 million on fiscal year 2006 net income.

Segment Results

Following is a discussion of sales by region for the fiscal years ended August 31, 2006 and 2005.

Americas

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2006	2005	\$ Change	% Change
Lubricants	\$ 102,732	\$ 99,259	\$ 3,473	3%
Household products	78,553	71,276	7,277	10%
Hand cleaners	5,484	5,571	(87)	(2)%
Sub-total	\$ 186,769	\$ 176,106	\$ 10,663	6%
<i>% of consolidated</i>	65%	67%		

Changes in foreign currency exchange rates compared to fiscal year 2005 positively impacted the growth of sales. The fiscal year 2006 results translated at fiscal year 2005 exchange rates would have produced sales of \$185.8 million in this region. Thus, the impact of the change in foreign currency exchange rates year over year positively affected sales in fiscal year 2006 by approximately \$1.0 million.

The increase in lubricant sales in the Americas during fiscal year 2006 compared to fiscal year 2005 was the result of WD-40 sales growth in Canada and Latin America as sales increased by 12% and 23%, respectively. Growth in Canada was due to the launch of the WD-40 Smart Straw and the WD-40 No-Mess Pen. The WD-40 Smart Straw and the WD-40 No-Mess Pen were introduced in the third and fourth quarters of fiscal year 2005, respectively. Growth in Latin America was primarily due to increased promotional activity and new distribution. Price increases implemented during the fiscal year 2005 third quarter on certain products, as well as additional price increases implemented during the fiscal year 2006 third quarter, also contributed to the sales growth in the Americas in fiscal year 2006. In the U.S., WD-40 sales increased 1%, as sales growth from the launch of the WD-40 Smart Straw and price increases were largely offset by decreased sales as a result of a large promotion in fiscal year 2005 not repeated in fiscal year 2006.

Despite the significant competition within the household brands category, the Company's household products were still able to achieve sales growth. Household product sales in fiscal year 2006 were up by \$7.3 million, or 10%, compared to fiscal year 2005 due primarily to increases in the U.S. Sales in the U.S. increased by \$6.8 million, or 10%. The increases in household product sales resulted from a variety of reasons, including increased promotional activity, increased distribution and new products that were introduced throughout fiscal year 2005.

Spot Shot sales increased 11% in the U.S. during fiscal year 2006 as compared to fiscal year 2005 due to increased promotional activities with key customers and sales from new products, Spot Shot Pro and Spot Shot with a trigger format. Additionally, during most of fiscal year 2005, Spot Shot experienced decreased sales as a result of a key U.S. customer temporarily replacing Spot Shot with competitor products as it performed competitor sales testing. Although Spot Shot was successful and maintained distribution, these tests caused sales to be lower in fiscal year 2005.

In recent years, retailers have reduced shelf space for traditional rug and room deodorizers for reallocation to other air care products. As a result, the rug and room deodorizer category as a whole has declined in the mass retail and grocery trade channels. Despite the declines in the rug and room deodorizer category, Carpet Fresh was able to achieve sales growth in the U.S. of 11% in fiscal year 2006 versus fiscal year 2005 due to increased promotional activities and expanded distribution, which included new trade channels.

U.S. sales of the X-14 hard surface cleaners increased 32% in fiscal year 2006 versus fiscal year 2005 due primarily to increased promotional activities, growth in non-grocery trade channels and the full year benefit from

the launch of two new innovative products. During the fourth quarter of fiscal year 2004 and first quarter of fiscal year 2005, the Company introduced two new products, X-14 Orange Aerosol and X-14 Oxy Citrus.

U.S. sales of 2000 Flushes/X-14 automatic toilet bowl cleaners were up 4% in fiscal year 2006 compared to fiscal year 2005 due to increased promotional activities performed by the Company, as well as promotional activities performed by a key customer.

Sales of heavy-duty hand cleaners for the Americas decreased 2% in fiscal year 2006 compared to fiscal year 2005. Although sales of heavy-duty hand cleaners decreased slightly, distribution remained consistent through the grocery trade and other classes of trade.

For this region, 87% of sales came from the U.S., and 13% came from Canada and Latin America in fiscal year 2006, compared to the distribution in fiscal year 2005, when 88% of sales came from the U.S., and 12% came from Canada and Latin America.

Europe

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2006	2005	\$ Change	% Change
Lubricants	\$ 69,742	\$ 59,427	\$ 10,315	17%
Household products	9,359	8,908	451	5%
Hand cleaners		18	(18)	(100)%
Sub-total	\$ 79,101	\$ 68,353	\$ 10,748	16%
% of consolidated	28%	26%		

For the fiscal year ended August 31, 2006, sales in Europe grew to \$79.1 million, up \$10.7 million, or 16%, over sales in fiscal year 2005. Changes in foreign currency exchange rates compared to fiscal year 2005 partially offset the growth of sales. Fiscal year 2006 results translated at fiscal year 2005 exchange rates would have produced sales of \$82.0 million in this region. Thus, the impact of the change in foreign currency exchange rates year over year negatively affected the fiscal year 2006 sales by approximately \$2.9 million, or 4%.

The countries where the Company sells through a direct sales force include the U.K., Spain, Portugal, Italy, France, Germany, the Netherlands, Denmark, Austria and Switzerland. Sales from these countries increased 15% in fiscal year 2006 versus fiscal year 2005. Sales from these countries also accounted for 71% of the region's sales in both fiscal year 2006 and 2005. Percentage increases in sales in U.S. dollars across the various parts of the region over fiscal year 2005 were as follows: the U.K., 11%; France, 16%; the German sales region, 23%; Spain/Portugal, 7%; and Italy, 21%.

The U.K. market benefited from sales growth of WD-40, 3-IN-ONE and 1001 Carpet Fresh No Vac. WD-40 sales were up 15% in fiscal year 2006 compared to fiscal year 2005 due to increased promotional activities, increased distribution and the launch of the WD-40 Smart Straw and the WD-40 No-Mess Pen, as well as price increases on certain products during fiscal year 2006. Sales of 3-IN-ONE increased 14% as a result of the growth of the 3-IN-ONE Professional line of products, introduction of 3-IN-ONE aerosol and promotions with key customers. 1001 Carpet Fresh No Vac was able to achieve sales growth of 38% versus fiscal year 2005 as a result of increased distribution and awareness, as well as media investment. The sales growth in France was the result of the introduction of the WD-40 Smart Straw and the WD-40 No-Mess Pen and increased sales of 3-IN-ONE. The increase in 3-IN-ONE sales in France was due to increased distribution and penetration of the 3-IN-ONE Professional products. The sales growth in the German sales region, which includes Germany, the Netherlands, Denmark, Austria and Switzerland, was the result of increased awareness and penetration of the WD-40 brand, the introduction of the WD-40 Smart Straw and the further development of direct sales into the Netherlands. Sales in Spain/Portugal were up as a result of the launch of the WD-40 Smart Straw and the No-Mess Pen, which

was launched under the 3-IN-ONE brand. The sales growth in Italy was also the result of increased awareness and penetration of the WD-40 brand and the launch of the WD-40 Smart Straw and the WD-40 No-Mess Pen.

In the countries in which the Company sells through local distributors, sales increased 18% in fiscal year 2006 versus fiscal year 2005. The sales growth in the distributor markets was the result of the continued growth in Eastern Europe and the Middle East. The distributor market accounted for approximately 29% of the total Europe segment sales in both fiscal year 2006 and 2005.

Asia-Pacific

Net Sales (in thousands)	Fiscal Year Ended August 31,			
	2006	2005	\$ Change	% Change
Lubricants	\$ 17,994	\$ 15,398	\$ 2,596	17%
Household products	1,910	2,053	(143)	(7)%
Hand cleaners	1,142	1,317	(175)	(13)%
Sub-total	\$ 21,046	\$ 18,768	\$ 2,278	12%
<i>% of consolidated</i>	7%	7%		

In the Asia-Pacific region, which includes Australia and Asia, total sales in fiscal year 2006 were \$21.0 million, up \$2.3 million, or 12%, compared to fiscal year 2005. Changes in foreign currency exchange rates compared to fiscal year 2005 did not significantly impact fiscal year 2006 sales. Asia-Pacific sales benefited primarily from increased lubricant sales across the region.

Sales in Australia were up 3% fiscal year 2006 as compared to fiscal year 2005 due to increased sales of WD-40, 3-IN-ONE and No Vac. WD-40 sales were up due to increased promotional activities and the launch of the WD-40 No-Mess Pen. 3-IN-ONE sales were up due to the launch of new products. No Vac sales increased as it continued to gain market share in Australia. These increases were partially offset by decreased sales of Solvol. Solvol sales were down 14% in fiscal year 2006 versus fiscal year 2005 as a result of reduced distribution to a key customer.

Sales in Asia were up 17% in fiscal year 2006 compared to fiscal year 2005 due to increased WD-40 sales to customers across the Asian region, including Taiwan, China, Indonesia, Japan, Singapore, Hong Kong and India, as the Company continued to expand into this region. Sales of 3-IN-ONE also contributed to the increase in Asia as a result of the launch of a new product in some markets. The increase in lubricant sales was partially offset by a decrease in sales of No Vac due to slower sales velocity in Japan.

LIQUIDITY AND CAPITAL RESOURCES

As of August 31, 2007, the Company had \$53.6 million remaining on an original \$75 million, 7.28% fixed-rate term loan. The loan matures in 2011, with the third principal payment of \$10.7 million having been made after the close of the fiscal year on October 18, 2007, and subsequent payments in similar amounts due each October 18th for four years thereafter.

Under the fixed-rate term loan, the Company is required to maintain minimum consolidated net worth greater than the sum of \$57 million plus 25% of consolidated net income for each fiscal quarter beginning with the first fiscal quarter of 2002, plus proceeds of all equity securities other than those issued under the Company's stock option plan.

A consolidated fixed charge coverage ratio greater than 1.20:1.00 on the last day of any fiscal quarter must be maintained. The Company is also limited to a maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA) of 2.25 to 1.00.

The term loan agreement also limits the Company's ability, without prior approval from the Company's lenders, to incur additional unsecured indebtedness, sell, lease or transfer assets, place liens on properties, complete

certain acquisitions, mergers or consolidations, enter into guarantee obligations, enter into related party transactions and make certain loan advances and investments.

The events of default under the fixed-rate term loan include the following:

Failure to pay principal or interest when due

Failure to comply with covenants, representations or warranties, terms or conditions under the credit agreements

Commencing any proceeding for bankruptcy, insolvency, reorganization, dissolution or liquidation

The sale, transfer, abandonment, forfeiture or disposal of the WD-40 trademark or any other trademark used in a material product line On March 27, 2007, the Company's Board of Directors approved a share buy-back plan. As a result of the share buy-back plan, the Company's debt covenants related to its fixed-rate term loan have been revised. Under the revised debt covenants, the aggregate payments for dividends and share repurchases by the Company are limited to \$35 million, plus 75% of consolidated net income for each quarter beginning March 1, 2007.

The Company is in compliance with all debt covenants as required by the term loan agreement.

The Company's cash balance has not been used to prepay the term loan due to certain prepayment penalties under the loan agreements.

The Company's primary source of funds is cash flow from operations, which is expected to provide sufficient funds to meet both short and long-term operating needs, as well as future dividends, which are determined on a quarterly basis.

For the fiscal year ended August 31, 2007, cash and cash equivalents increased by \$15.9 million, from \$45.2 million at the end of fiscal year 2006 to \$61.1 million at August 31, 2007. Operating cash flow of \$51.7 million was offset by cash used in investing activities of \$2.2 million and cash used in financing activities of \$34.1 million.

Current assets increased by \$15.0 million to \$130.6 million at August 31, 2007, up from \$115.5 million at August 31, 2006. Accounts receivable increased to \$47.2 million, up \$2.7 million from \$44.5 million at August 31, 2006, as a result of the timing of sales. Inventory decreased to \$13.2 million, down \$2.1 million from \$15.3 million at August 31, 2006 due to timing. Other current assets decreased by \$1.4 million to \$3.5 million at August 31, 2007, down from \$4.9 million at August 31, 2006 due to the timing of prepaid expenses and the reduction of federal income taxes receivable as the Company received tax refunds for amended returns from prior years.

Current liabilities were \$53.9 million at August 31, 2007, up from \$43.7 million at August 31, 2006. Accounts payable and accrued liabilities increased by \$12.7 million due to timing of payments and higher sales levels in the fourth quarter of fiscal year 2007 compared to the fourth quarter of fiscal year 2006. Accrued payroll and related expenses were down \$0.6 million primarily due to a decreased bonus accrual as several regions did not achieve profit and performance targets that had been met in the prior fiscal year. Income taxes payable was down \$1.9 million due to the timing of payments for federal income taxes.

At August 31, 2007, working capital increased to \$76.7 million, up \$4.8 million from \$71.9 million at the end of fiscal year 2006. The current ratio was 2.4 at August 31, 2007, down from 2.6 at August 31, 2006.

Net cash provided by operating activities for the fiscal year ended August 31, 2007 was \$51.7 million. This amount consisted of \$31.5 million from net income with an additional \$7.1 million of adjustments for non-cash

items, including depreciation and amortization, gains on sales of equipment, deferred income tax expense, excess tax benefits from exercises of stock options, distributions received and equity earnings from VML Company L.L.C. (VML) and stock-based compensation, along with \$13.0 million related to changes in the working capital as described above and changes in other long-term liabilities.

Net cash used in investing activities for the fiscal year ended August 31, 2007 was \$2.2 million. The Company purchased and sold \$224.7 million of short-term investments, which consisted of investment grade auction rate securities with an active resale market to ensure liquidity and the ability to be readily converted into cash. Capital expenditures of \$2.6 million were primarily in the areas of computer hardware and software, buildings and improvements, furniture and fixtures and vehicle replacements.

For fiscal year 2007, net cash used in financing activities included a \$10.7 million principal payment on debt in October 2006, \$16.6 million of dividend payments and \$17.3 million for purchases of 500,000 shares of common stock held in treasury, partially offset by \$9.8 million in proceeds from the exercise of common stock options and \$0.7 million of excess tax benefits from exercises of stock options. The \$10.7 million payment on debt was the second principal payment on the Company's original \$75 million, 7.28% fixed-rate term loan.

Under the share buy-back plan approved by the Company's Board of Directors on March 27, 2007, the Company is authorized to acquire up to \$35.0 million of the Company's outstanding shares. As of August 31, 2007, the Company has acquired 500,000 shares at a total cost of \$17.3 million under the plan. Further disclosures associated with stock repurchased during fiscal year 2007 are included under Note 4 of the Consolidated Financial Statements and in Part II, Item 5 of this report.

Management believes the Company has access to sufficient capital through the combination of available cash balances and internally generated funds. Management considers various factors when reviewing liquidity needs and plans for available cash on hand including: future debt principal and interest payments, early debt repayment penalties, future capital expenditure requirements, future dividend payments (which are determined on a quarterly basis by the Company's Board of Directors), alternative investment opportunities, loan covenants and any other relevant considerations currently facing the business.

On October 4, 2007, the Company's Board of Directors declared a cash dividend of \$0.25 per share payable on October 31, 2007 to shareholders of record on October 18, 2007. The Company's ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

The following schedule summarizes the Company's contractual obligations and commitments to make future payments as of August 31, 2007:

Contractual Obligations:	Payments Due by Period				
	Total	1 year	2-3 years	4-5 years	After 5 years
Total debt	\$ 53,571,000	\$ 10,714,000	\$ 21,428,000	\$ 21,429,000	\$
Interest payments on debt	8,775,000	3,315,000	4,290,000	1,170,000	
Operating leases	3,095,000	1,461,000	1,386,000	238,000	10,000
Marketing and other commitments	2,039,000	1,163,000	876,000		
Capital expenditure commitments	2,019,000	2,019,000			
Total contractual cash obligations	\$ 69,499,000	\$ 18,672,000	\$ 27,980,000	\$ 22,837,000	\$ 10,000

The following summarizes other commercial commitments as of August 31, 2007:

The Company has relationships with various suppliers (contract manufacturers) who manufacture the Company's products. Although the Company does not have any definitive minimum purchase obligations included in the contract terms with contract manufacturers, supply needs are communicated

and the Company is committed to purchase the products produced based on sales forecasts provided to the contract manufacturers, ranging from two to five months.

In addition to the commitments to purchase products from contract manufacturers described above, the Company has also entered into commitments with other manufacturers to purchase finished goods and components of \$1.1 million in fiscal year 2008.

The Company provides fixed retirement benefits to certain of its key executives under a supplemental employee retirement plan. Under the plan, the Company is committed to pay benefits to current retirees of \$141,000 in fiscal year 2008 and \$84,000 in each of fiscal years 2009 through 2012. Benefits payable to current employees vest upon retirement. As a result, the timing of payments and the total annual benefit payment amounts beyond fiscal year 2012 are uncertain. However, the Company has actuarially determined the present value of all future benefit payments to be \$2.0 million as of August 31, 2007.

STOCK-BASED COMPENSATION

Effective September 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R, Share-Based Payment. Prior to September 1, 2005, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plan using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company's stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS Nos. 123 and 148. The Company adopted the modified prospective transition method provided under SFAS No. 123R, and as a result, did not retroactively adjust results from prior periods. Under this transition method, compensation expense associated with stock options recognized in fiscal years 2007 and 2006 includes: 1) expense related to the remaining unvested portion of all stock option awards granted prior to September 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) expense related to all stock option awards granted subsequent to September 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

The adoption of SFAS No. 123R also resulted in certain changes to the Company's accounting for its restricted stock awards, which is discussed in more detail in Note 10 Stock-based Compensation, included in the Notes to Consolidated Financial Statements under Part IV Item 15.

As a result of the adoption of SFAS No. 123R, the Company's net income included \$1.8 million of compensation expense for each of the fiscal years ended August 31, 2007 and 2006; and \$0.6 million and \$0.5 million of income tax benefits in fiscal years ended August 31, 2007 and 2006, respectively, related to the Company's stock options. For the fiscal year ended August 31, 2005, there was no compensation expense or corresponding income tax benefits related to stock options included in net income.

As of August 31, 2007, there was \$1.8 million and \$0.3 million of unamortized compensation costs related to non-vested stock option awards and non-vested restricted stock awards, respectively. These costs are expected to be recognized over weighted-average periods of 1.8 years and 3.0 years, respectively.

The Company estimates the fair value of each option award on the date of grant using the Black-Scholes option valuation model with the assumptions described in Note 10 to the Consolidated Financial Statements.

For fiscal year 2008, the Company will continue to grant stock options to employees. The Company has also evaluated the use of other forms of long-term stock-based compensation arrangements. The Board of Directors has approved a policy for compensation of non-employee directors effective in calendar year 2008 that, subject to stockholder approval, includes the award of restricted stock units. As with all compensation arrangements, the award of stock-based compensation is subject to periodic review.

Readers are also directed to refer to Note 10 - Stock-based Compensation, included in the Notes to Consolidated Financial Statements under Part IV - Item 15.

CRITICAL ACCOUNTING POLICIES

The Company's results of operations and financial condition, as reflected in the Company's consolidated financial statements, have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. Management uses historical experience and other relevant factors when developing estimates and assumptions. These estimates and assumptions are continually evaluated. Note 1 to the Company's consolidated financial statements includes a discussion of significant accounting policies. The accounting policies discussed below are the ones management considers critical to an understanding of the Company's consolidated financial statements because their application places the most significant demands on our judgment. The Company's financial results may have been different if different assumptions had been used or other conditions had prevailed. The Company's critical accounting policies have been reviewed with the Audit Committee of the Board of Directors.

Revenue Recognition

Sales are recognized as revenue at the time of delivery to the customer when risk of loss and title pass. Management must make judgments and certain assumptions in the determination of when delivery occurs. Through an analysis of end-of-period shipments, the Company determines an average time of transit that is used to estimate the time of delivery. Differences in judgments or estimates, such as the lengthening or shortening of the estimated delivery time used, could result in material differences in the timing of revenue recognition. Sales are recorded net of allowances for damaged goods and other sales returns, sales incentives, trade promotions and cash discounts.

Accounting for Sales Incentives

The Company records sales incentives as a reduction of sales in its consolidated statements of operations. The Company offers on-going trade promotion programs with customers, and consumer coupon programs that require the Company to estimate and accrue the expected costs of such programs. Programs include cooperative marketing programs, shelf price reductions, coupons, rebates, consideration and allowances given to retailers for space in their stores, consideration and allowances given to obtain favorable display positions in the retailers' stores and other promotional activity. Costs related to rebates, co-operative advertising and other promotional activity are recorded upon delivery of products to customers. Costs related to coupon offers are based upon historical redemption rates and are recorded as incurred, when coupons are circulated.

Estimated sales incentives are calculated and recorded at the time related sales are made and are based primarily on historical rates and consideration of recent promotional activities. The determination of sales incentive liabilities requires the Company to use judgment for estimates that include current and past trade-promotion spending patterns, status of trade-promotional activities and the interpretation of historical spending trends by customer and category. We review our assumptions and adjust our reserves quarterly. Our financial statements could be materially impacted if the actual promotion rates fluctuate from the estimated rate. If the Company's accrual estimates for sales incentives at August 31, 2007 were to differ by 10%, the impact on net sales would be approximately \$0.5 million.

Allowance for Doubtful Accounts

The preparation of financial statements requires our management to make estimates and assumptions relating to the collectibility of our accounts receivable. Management specifically analyzes historical bad debts, customer credit worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Accounting for Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax liability or asset is established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company establishes accruals for certain tax contingencies when, despite the belief that the Company's tax return positions are fully supported, the Company believes that certain positions may not be fully sustained upon challenge by relevant tax authorities. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Company's tax contingency accruals are reflected as a component of income taxes payable.

U.S. income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested in accordance with APB Opinion No. 23, *Accounting for Income Taxes, Special Areas*. The Company determines whether its foreign subsidiaries will invest their undistributed earnings indefinitely and reassesses this determination on a periodic basis. Change to the Company's determination may be warranted based on the Company's experience as well as plans regarding future international operations and expected remittances.

Valuation of Long-lived Assets, Intangible Assets and Goodwill

The Company assesses the potential impairment of long-lived assets, identifiable intangibles and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For goodwill and intangibles determined to have indefinite lives, impairment is tested at least annually under the guidance of SFAS No. 142, during our second fiscal quarter of each year unless there are indicators during an interim period that assets may have become impaired. The Company's impairment test is based on a discounted cash flow approach that requires significant management judgment and estimates, such as forecasted revenue, advertising and promotional expenses, cost of products sold, gross margins, operating margins, the success of product innovations and introductions, customer retention and the selection of appropriate discount and royalty rates. Management judgments and estimates are based on assumptions that are most reasonably likely to occur. For goodwill, impairment occurs when the carrying value of a reporting unit exceeds the fair value of that reporting unit. For intangible assets, impairment occurs when the carrying value of an asset exceeds its fair value. In addition, intangible assets with indefinite lives are evaluated quarterly to determine whether events and circumstances continue to support an indefinite useful life.

Events and circumstances that we consider important which could trigger impairment include the following:

Significant underperformance relative to historical or projected future operating results

Significant changes in the manner of our use of the acquired assets or the strategy for our overall business

Significant negative industry or economic trends

Significant decline in our stock price for a sustained period

Decreased market capitalization relative to net book value

Unanticipated technological change or competitive activities

Loss of key distribution

Loss of key personnel

Acts by government and courts

When there is indication that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators, an impairment loss would be recognized if the carrying amount of the asset exceeds its fair value. When there is an indication of impairment of goodwill, an impairment loss would be recognized to the extent that the carrying amount of the goodwill exceeds its implied fair value.

During the second quarter of fiscal year 2007, the Company tested its goodwill and indefinite-lived intangible assets for impairment based on future discounted cash flows compared to related book values. Based on this review, the Company determined that there were no instances of impairment. If the fair values of the Company's goodwill and intangible assets, as calculated during the annual impairment test, were reduced by 10%, there would still be no instances of impairment.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* Including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*. Management is currently evaluating the impact that the implementation of SFAS No. 159 may have on the Company's consolidated results of operations and financial position.

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

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109. FIN 48 seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. It applies to all tax positions accounted for in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt this interpretation as required beginning September 1, 2007. Management is currently evaluating the impact that the implementation of FIN 48 may have on the Company's consolidated results of operations and financial position.

TRANSACTIONS WITH RELATED PARTIES

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

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

Under Financial Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, VML qualifies as a variable interest entity, and it has been determined that the Company is not the primary beneficiary. The Company's investment in VML is accounted for using the equity method of accounting, and its equity in VML earnings or losses is recorded as a component of cost of products sold, as VML acts primarily as a contract manufacturer to the Company. The Company recorded equity earnings related to its investment in VML of \$0.1 million for the fiscal year ended August 31, 2007, equity losses of \$0.1 million for the fiscal year ended August 31, 2006 and equity earnings of \$0.4 million for the fiscal year ended August 31, 2005.

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

Cost of products sold which were purchased from VML, net of rebates and equity earnings or losses, was approximately \$19.1 million, \$41.0 million and \$38.4 million during the fiscal years ended August 31, 2007, 2006 and 2005, respectively. The Company had product payables to VML of \$1.5 million and \$0.5 million at August 31, 2007 and 2006, respectively. Additionally, the Company receives rental income from VML, which is recorded as a component of other (expense) income, net. Rental income from VML was \$0.2 million for each of the fiscal years ended August 31, 2007, 2006 and 2005.

During the fourth quarter of fiscal year 2006, the Company acquired \$2.0 million of inventory from VML. The inventory purchased from VML consisted of certain finished goods that had been acquired from other manufacturers on behalf of the Company. As the Company transitioned to direct acquisition of these finished goods, it acquired the remaining inventory at VML.

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 are subject to certain risks and uncertainties. The words aim, believe, expect, anticipate, intend, estimate and other expressions that indicate future events and trends identify forward-looking statements.

Actual future results and trends may differ materially from historical results or those anticipated depending upon factors including, but not limited to, the near-term growth expectations for lubricants, household products and heavy-duty hand cleaners in the Americas, the impact of changes in product distribution, competition for shelf

space, plans for product and promotional innovation, the impact of new product introductions on the growth of sales, the impact of customer mix and raw material, component and finished goods costs on gross margins, the impact of promotions on sales, the rate of sales growth in the Asia-Pacific region, direct European countries and Eastern Europe, the impact of changes in inventory management, the effect of future income tax provisions and audit outcomes on tax rates, the amount of future capital expenditures, foreign currency exchange rates and fluctuations in those rates, the effects of, and changes in, worldwide economic conditions, legal proceedings and the other risk factors identified in Item 1A.

Readers also should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders or readers should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Further, the Company has a policy against confirming financial forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

ITEM 7A Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

The Company is exposed to a variety of risks, including foreign currency fluctuations. In the normal course of its business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency values and changes in the market value of its investments.

The Company's objective in ma