

WD-40 COMPANY ANNUAL REPORT 1980

YEAR ENDING AUGUST 31



Highlights of the Year Ended August 31, 1980

	<u>1980</u>	<u>1979</u>
Net Sales	\$35,795,000	\$35,215,000
Net Income	\$ 5,510,000	\$ 5,503,000
†Net Income per Share	\$2.22	\$2.22
†Dividends Paid	\$1.55	\$1.20
†Average No. of Shares Outstanding	2,478,090	2,478,090
†Shares Outstanding	2,478,090	2,478,090

- Current Ratio: 12.9 to 1
- Net Income to Average Net Worth: 48.1%
- Debt: None
- Receivables to Sales: 15.1%
- Inventories to Sales: 2.8%
- Sales per Employee: \$994,306

†Numbers restated to reflect 2 for 1 stock split effective October 10, 1978

October 21, 1980

TO OUR SHAREHOLDERS:

Fiscal 1980 sales were \$35,795,000 and net income was \$5,510,000. Both of these figures are records, but by such a tiny margin that it is nothing to shout about. The first half of the year tracked well against an ambitious growth plan, then the recession abruptly hit us. Unprecedented high interest rates spawned tight inventory policies which led to numerous stock-outs. This, coupled with reduced retail traffic, stunted our sales growth. Some rebuilding of stock was detected in the closing months of the year.

The profit margin was squeezed slightly from the previous year as a result of increased product costs and marketing investments not yielding the planned sales volume. Partially offsetting these increases were slightly lower selling and general administrative expenses and more interest income resulting from high interest rates. This year's corporate tax rate was slightly lower than previous rates.

On a per share basis, earnings were \$2.22 vs. \$2.22 a year ago. We paid \$1.55 per share in dividends this year vs. \$1.20 in the previous year.

We are taking a positive stance and have implemented an aggressive marketing program to regain our traditional growth pattern.



John S. Barry,
President

THE COMPANY

Corporate Objectives

Management is dedicated to the objectives of increasing corporate earnings and dividends by winning the end-user's brand loyalty for your Company's only product, WD-40.

The Product

WD-40 is the cornerstone of your Company. It is a chemical-petroleum based maintenance product consumed by end-users in homes, factories, garages, farms and offices throughout the free world. The well-established growth pattern in the demand for WD-40 attests to customer satisfaction with its performance.

WD-40 is typically procured for a specific application and, because of its unusual versatility, finds its way into many other uses. This broad range of uses provides your single-product Company with surprising diversification from a marketing point-of-view — it has little dependency on any one or even a group of end-users.

Markets

WD-40 is supplied to its many markets through a number of trade channels, the most important of which are: hardware, automotive, sporting goods, industrial and farm. Your Company envisions significant growth attainable through increased market penetration.

Competition

Your Company's success with WD-40 has not gone unnoticed. Numerous imitations from both fly-by-night operators and billion dollar conglomerates have been introduced into the marketplace. No one has gained a significant market share even in those cases where the company had a long established position in its own trade channel. It may well be that, as the leader, WD-40 benefits at both the trade and end-user level by calling attention to our kind of product.

Operational Overview

While your Company is technically a manufacturer, it is really a marketer. Such being the case, it is organized to focus intensive management attention on critical success areas of: (1) sales policies, (2) marketing plan formulation, and (3) implementation of marketing plans. Other vital functions handled internally are: order handling, credit, concentrate formulation, and quality control.

WD-40 concentrate is formulated in San Diego and shipped by rail car or tank wagon to contract packagers in Los Angeles, Texas, Georgia, New Jersey, Wisconsin, and Toronto, Canada. Independent sub-contractors package WD-40 to rigid specifications and, upon order from your Company, ship WD-40 to customers in their respective areas via common carrier. The packagers have no responsibility for marketing WD-40.

Your Company has 30 employees in the United States and 6 in Canada.

Capital Requirements — Dividends

Your Company will be able to accommodate a very substantial increase in business with an insignificant addition to fixed assets. Growth will require modest increases to working capital. There are no other plans for utilizing earnings, hence, it is expected that unneeded funds will be paid out as dividends. This is reflected in the fact that fiscal 1980 cash dividends were 29% higher than the previous year.

International

Your Company has a network of licensees and distributors throughout the free world. While contributing less than 10% of sales and income, this business does enhance WD-40's overall image as well as build demand in the United States through "cross-pollinization."

Fiscal 1981

We are making marketing investments aimed at returning the Company to a healthy growth pattern.



September 26, 1980

To the Board of Directors and Shareholders
of WD-40 Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of WD-40 Company and its subsidiary at August 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

**WD-40 COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**

	Year ended August 31	
	1980	1979
Net sales	\$35,795,000	\$35,215,000
Interest, royalty and other income	942,000	706,000
	<u>36,737,000</u>	<u>35,921,000</u>
Cost and expenses:		
Cost of products sold	16,106,000	15,503,000
Selling, general and administrative	6,689,000	6,788,000
Advertising and sales promotion	2,830,000	2,366,000
	<u>25,625,000</u>	<u>24,657,000</u>
Income before taxes on income	<u>11,112,000</u>	<u>11,264,000</u>
Provision for income taxes (Note 2):		
Federal	4,563,000	4,736,000
State	930,000	921,000
Foreign	109,000	104,000
	<u>5,602,000</u>	<u>5,761,000</u>
Net income	<u>5,510,000</u>	<u>5,503,000</u>
Beginning retained earnings	9,396,000	6,867,000
Cash dividends of \$1.55 and \$1.20 per share	(3,841,000)	(2,974,000)
Ending retained earnings	<u>\$11,065,000</u>	<u>\$ 9,396,000</u>
Earnings per share (Note 1)	<u>\$2.22</u>	<u>\$2.22</u>

See accompanying notes to consolidated financial statements.

**WD-40 COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET**

ASSETS

	August 31	
	<u>1980</u>	<u>1979</u>
Current assets:		
Cash, including certificates of deposit of \$5,201,000 and \$5,368,000	\$ 5,374,000	\$ 5,368,000
Accounts receivable, less allowance for cash discounts and doubtful accounts of \$118,000 and \$107,000	5,429,000	5,933,000
Inventories, at the lower of average cost or market:		
Finished goods	869,000	622,000
Raw materials	152,000	167,000
	<u>1,021,000</u>	<u>789,000</u>
Prepaid taxes and expenses	643,000	411,000
Total current assets	12,467,000	12,501,000
Property, plant and equipment at cost (Note 1):		
Land	100,000	100,000
Building and improvements	477,000	474,000
Machinery and equipment	630,000	567,000
	<u>1,207,000</u>	<u>1,141,000</u>
Less: Accumulated depreciation	(378,000)	(290,000)
	<u>829,000</u>	<u>851,000</u>
	<u>\$13,296,000</u>	<u>\$13,352,000</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 473,000	\$ 914,000
Accrued payroll and related expenses	429,000	413,000
Estimated taxes on income (Note 2)	62,000	1,364,000
Total current liabilities	964,000	2,691,000
Deferred income taxes (Note 2)	45,000	43,000
Shareholders' equity:		
Common stock, no par value, 3,000,000 shares authorized — 2,478,090 shares issued and outstanding (Note 3)	1,101,000	1,101,000
Paid in capital	121,000	121,000
Retained earnings	11,065,000	9,396,000
Total shareholders' equity	12,287,000	10,618,000
	<u>\$13,296,000</u>	<u>\$13,352,000</u>

See accompanying notes to consolidated financial statements.

**WD-40 COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

	Year ended August 31	
	1980	1979
Financial resources were provided by:		
Operations —		
Net income	\$5,510,000	\$5,503,000
Depreciation	99,000	89,000
Deferred income tax	2,000	(2,000)
Provided by operations	5,611,000	5,590,000
Disposition of equipment	10,000	36,000
	<u>5,621,000</u>	<u>5,626,000</u>
Financial resources were used for:		
Cash dividends	3,841,000	2,974,000
Additions to plant and equipment	87,000	151,000
	<u>3,928,000</u>	<u>3,125,000</u>
Increase in working capital	<u>\$1,693,000</u>	<u>\$2,501,000</u>
Changes in components of working capital:		
Increase (decrease) in current assets —		
Cash	\$ 6,000	\$ 252,000
Accounts receivable	(504,000)	2,387,000
Inventories	232,000	126,000
Prepaid taxes and expenses	232,000	115,000
	<u>(34,000)</u>	<u>2,880,000</u>
Decrease (increase) in current liabilities —		
Accounts payable	441,000	(521,000)
Accrued payroll and related expenses	(16,000)	(68,000)
Estimated taxes on income	1,302,000	210,000
	<u>1,727,000</u>	<u>(379,000)</u>
Increase in working capital	<u>\$1,693,000</u>	<u>\$2,501,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Summary of accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, WD-40 Products (Canada) Limited. All significant intercompany transactions have been eliminated. Accounts of the Canadian subsidiary have been translated into United States dollars at appropriate rates of exchange. The gain or loss resulting from translation, which was not material in amount, has been included in operations.

Depreciation

Depreciation of plant and equipment has been provided on the straight-line method, based upon estimated useful lives of thirty years for the plant, and ten to fifteen years for machinery and equipment. Management has elected to depreciate plant, machinery and equipment on the declining balance method for income tax purposes. Expenditures for renewals and betterments are capitalized; maintenance and repair costs are expensed. Upon the sale or retirement of

property, plant and equipment, cost and related depreciation are cleared from the accounts and any gain or loss is included in operations.

Earnings per share

Earnings per share are based on the weighted average number of shares outstanding during each year of 2,478,090 in both 1980 and 1979, after giving retroactive effect to the 2 for 1 stock split in October 1978, as described in Note 3.

NOTE 2 — Income taxes

Income tax provisions are computed at the statutory rates in effect for federal, state and foreign authorities, respectively. The provision for income taxes includes the following timing differences:

	Year ended August 31	
	1980	1979
Due to expenses recorded in advance of tax deduction —		
California Franchise Tax	\$ 3,000	\$ 96,000
Allowance for cash discounts	6,000	23,000
Other — net	<u>(1,000)</u>	<u>(1,000)</u>
Increase in prepaid taxes	8,000	118,000
Due to tax deduction in advance of recording expense —		
Decrease (increase) in deferred taxes —		
Depreciation	<u>(2,000)</u>	<u>2,000</u>
Tax effect of timing differences	<u>\$6,000</u>	<u>\$120,000</u>

Investment tax credits, which are not material in amount, are accounted for under the flow-through method.

NOTE 3 — Common stock

Shares of common stock, dividends per share, stock options, prices at which options are exercisable, and earnings per share have been computed after giving retroactive effect to a 2 for 1 stock split in October 1978.

The Company has a Qualified Stock Option Plan under which officers and key employees of the Company may be granted options to purchase an aggregate of not more than 60,000 shares of the Company's no par value common stock at a price not less than 100% of the fair market value of the stock at the date of grant. Options are exercisable one year after grant and may not be granted for terms in excess of five years. Options for 43,600 shares granted from September 1973 through September 1975 at \$5.50 to \$11.38 per share were all exercised prior to fiscal 1979, and no additional options were granted, leaving no options outstanding at August 31, 1979. Options for 16,400 shares were granted September 1979 at \$29.50 per share, and no additional options have been granted during fiscal 1980. The granting of these options brings the aggregate number of options issued under the Plan to the maximum allowable amount of 60,000 shares. The Plan terminates in October 1982.

There were no changes in common stock during the years ended August 31, 1980 and 1979.

NOTE 4 — Profit Sharing Plan

The Company has a Profit Sharing Plan for the benefit of their regular full time employees, including officers. The Plan provides for annual contributions into a trust which are based upon an annual earnings formula, or more, as approved by the Board, but which may not exceed the amount deductible for federal income tax purposes. The Plan may be amended or discontinued at any time by the Company. Profit sharing expense for 1980 and 1979 approximated \$128,000 and \$129,000, respectively.

NOTE 5 — Quarterly financial information (unaudited)

The following table sets forth certain unaudited quarterly financial information for the two years ended August 31, 1980:

Quarter ended:	Net sales	Gross profit	Net income	Earnings per share
November 30, 1978	\$ 7,613,000	\$ 4,472,000	\$1,162,000	\$.47
February 28, 1979	8,475,000	4,674,000	1,223,000	.49
May 31, 1979	10,625,000	5,853,000	1,572,000	.64
August 31, 1979	8,502,000	4,713,000	1,546,000	.62
	<u>\$35,215,000</u>	<u>\$19,712,000</u>	<u>\$5,503,000</u>	<u>\$2.22</u>
November 30, 1979	\$ 7,914,000	\$ 4,403,000	\$1,132,000	\$.46
February 29, 1980	10,508,000	5,907,000	1,587,000	.64
May 31, 1980	8,672,000	4,638,000	1,275,000	.51
August 31, 1980	8,701,000	4,741,000	1,516,000	.61
	<u>\$35,795,000</u>	<u>\$19,689,000</u>	<u>\$5,510,000</u>	<u>\$2.22</u>

COPY OF FORM 10-K

Beneficial owners may obtain without charge a copy of WD-40 Company's annual report on Form 10-K filed with the Securities and Exchange Commission for 1980 by writing to the Secretary, WD-40 Company, 1061 Cudahy Place, San Diego, CA 92110.

QUARTERLY STOCK PRICE AND DIVIDEND INFORMATION

Period	Fiscal 1980			Fiscal 1979		
	High	Low	Dividend	High	Low	Dividend
First quarter	37¼	27¾	\$.35	27¾	21	\$.25
Second quarter	42¾	33½	.40	30¾	25½	.30
Third quarter	37¾	31½	.40	29	26½	.30
Fourth quarter	38¾	29	.40	31	27	.35

The high and low sales prices are as quoted in Standard and Poor's Daily Stock Prices, adjusted to give retroactive effect to the 2 for 1 stock split which was effected on October 10, 1978.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE LAST FIVE FISCAL YEARS OF OPERATIONS (SEE SUMMARY OF OPERATIONS ON PAGES 9 AND 10)

Sales

Ever expanding marketing programs have resulted in the following sales growth rates for 1976 through 1980 respectively: 38.9%, 18.2%, 28.2%, 34.0%, and 1.6%. All growth was "real" except for 1980 which benefited from a price adjustment of over 15%. The recession which began March of 1980 had a strong negative impact.

Cost of Products Sold

Product cost as a per cent of sales for 1976 through 1980 respectively was: 45.7%, 45.0%, 41.7%, 44.0%, and 45.0%. The cost in 1978 went down significantly because of the new propellant system adopted to comply with the Federal Government's directives. Inflation is increasing the product cost and wiped out the offset made by the price increase in 1980.

Selling, Advertising, General and Administrative Expenses

Selling, administrative, and marketing expense as a per cent of sales for 1976 through 1980 respectively was: 28.3%, 28.4%, 27.4%, 25.9%, and 26.6%.

Board of Directors

Thomas Barger	Consultant, Former Chairman of the Board, Aramco
John S. Barry	President, Treasurer
Sam Crivello	Investor
Eugene H. DeFalco	Investor
Harlan F. Harmsen	Attorney, Harmsen, Carpenter & Wilkinson
J. Lawrence Irving	Secretary; Attorney
Margaret L. Roulette	Investor
Lucia D. Taylor	Investor

Officers

John S. Barry	President, Treasurer
Gerald C. Schleif	Vice President — Marketing
J. Lawrence Irving	Secretary
Judith A. Nieto	Assistant Secretary

General Counsel

Harmsen, Carpenter & Wilkinson

Independent Accountants

Price Waterhouse & Co.
San Diego, California

Transfer Agent & Registrar

Bank of America, 111 West 7th St., Los Angeles, California 90014

Corporate Office

1061 Cudahy Place
San Diego, California 92110
714/275-1400

Annual Meeting

2:00 PM, November 24, 1980
Company Offices
1061 Cudahy Place
San Diego, California 92110

Listed

Over the Counter. Symbol WDFC

TEN YEAR SUMMARY (1)

FISCAL YEAR ENDED AUGUST 31

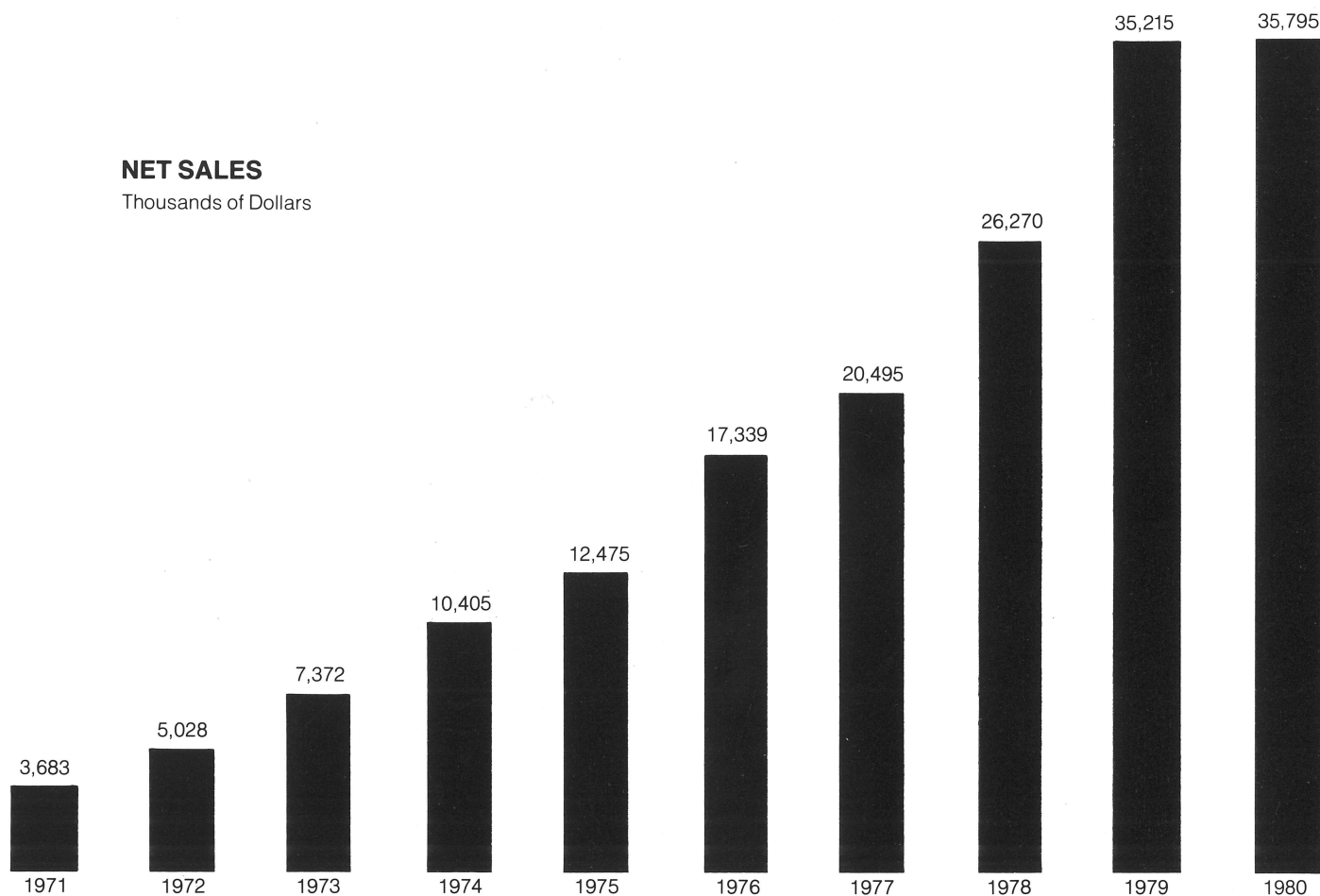
	1971	1972	1973
Net sales	\$3,683,000	\$5,028,000	\$7,372,000
Cost of products sold	<u>1,443,000</u>	<u>1,921,000</u>	<u>2,834,000</u>
Gross profit	<u>2,240,000</u>	<u>3,107,000</u>	<u>4,538,000</u>
Selling, advertising, general and administrative expenses	1,004,000	1,469,000	2,140,000
Interest, royalty and other income	<u>70,000</u>	<u>111,000</u>	<u>146,000</u>
Income before taxes on income	1,306,000	1,749,000	2,544,000
Provision for income taxes (2)	<u>668,000</u>	<u>901,000</u>	<u>1,318,000</u>
Net income	<u>\$ 638,000</u>	<u>\$ 848,000</u>	<u>\$1,226,000</u>
Earnings per share (3)	<u>\$.275</u>	<u>\$.365</u>	<u>\$.51</u>
Cash dividends per share (4)	<u>\$.515</u>	<u>\$.53</u>	<u>\$.475</u>
Number of employees	9	19	20

(1) Includes the accounts of the Company and its wholly owned subsidiary. All significant intercompany transactions have been eliminated. See Management's Discussion and Analysis of Operations of the five years ended August 31, 1976 through 1980 on page 8.

(2) The Company's shareholders elected to be taxed under Subchapter S of the Internal Revenue Code of 1954 during the four years ended August 31, 1969 through 1972. Under this election, the Company paid no federal income tax for these years because taxable income of the Company was includable in the federal income tax returns of the shareholders. A charge equivalent to federal income taxes which would have been paid, had the Subchapter S election not been made, has been included in the provision for income taxes for fiscal 1969 through 1972.

NET SALES

Thousands of Dollars



1974	1975	1976	1977	1978	1979	1980
\$10,405,000	\$12,475,000	\$17,339,000	\$20,495,000	\$26,270,000	\$35,215,000	\$35,795,000
4,392,000	5,863,000	7,929,000	9,230,000	10,957,000	15,503,000	16,106,000
6,013,000	6,612,000	9,410,000	11,265,000	15,313,000	19,712,000	19,689,000
2,877,000	3,483,000	4,918,000	5,812,000	7,200,000	9,154,000	9,519,000
193,000	210,000	229,000	296,000	491,000	706,000	942,000
3,329,000	3,339,000	4,721,000	5,749,000	8,604,000	11,264,000	11,112,000
1,736,000	1,738,000	2,468,000	3,013,000	4,470,000	5,761,000	5,602,000
\$ 1,593,000	\$ 1,601,000	\$ 2,253,000	\$ 2,736,000	\$ 4,134,000	\$ 5,503,000	\$ 5,510,000
\$.655	\$.66	\$.925	\$1.125	\$1.67	\$2.22	\$2.22
\$.40	\$.40	\$.475	\$.55	\$.80	\$1.20	\$1.55
23	24	27	31	32	35	36

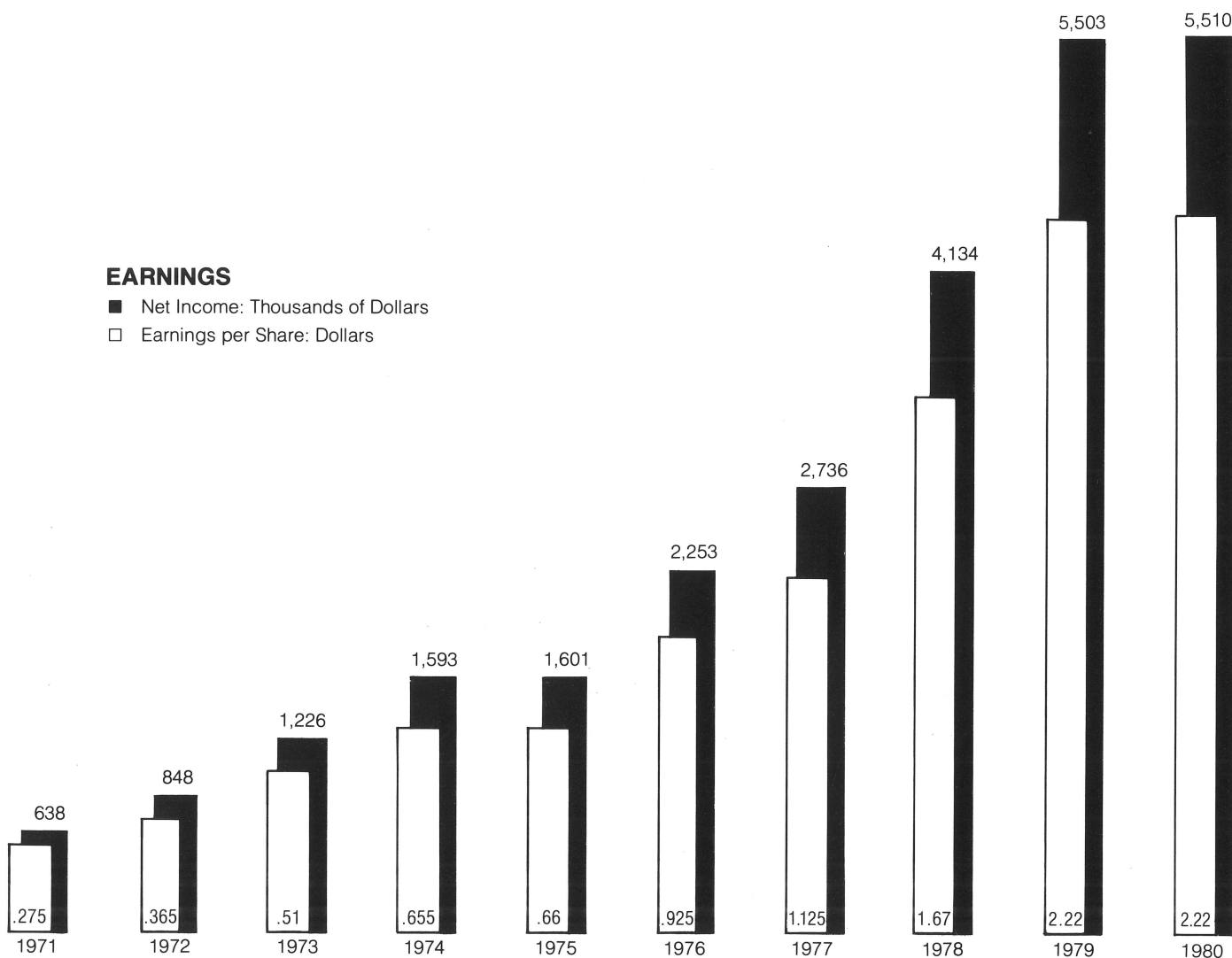
(3) Earnings per common share have been computed based upon the weighted average number of shares of common stock outstanding during each year after giving retroactive effect to the 42.5 for 1 stock split in November 1972 and the 2 for 1 stock split in October 1978. The weighted average number of shares outstanding during the fiscal years through August 31, 1972, the year ended August 31, 1973, the years ended August 31, 1974 through 1976, the year ended August 31, 1977, the year ended August 31, 1978, and the years ended August 31,

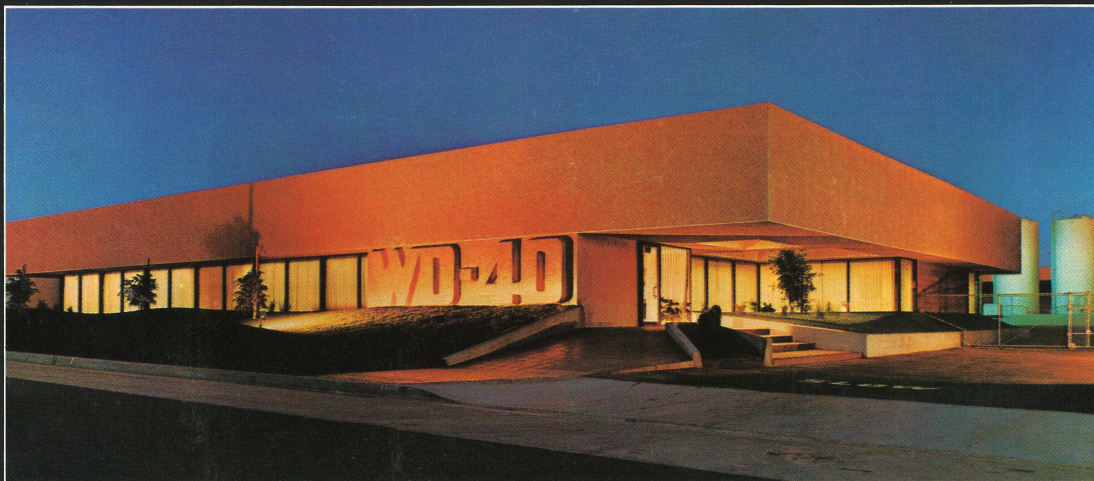
1979 and 1980 were 2,331,890, 2,407,706, 2,434,490, 2,434,566, 2,471,426, and 2,478,090, respectively.

(4) The cash dividends paid per common share have been retroactively restated to give effect to the November 1972 and October 1978 stock splits. Cash distributions paid to the shareholders through November 1972 were based on the approximate taxable income under Subchapter S for the four years ended August 31, 1969 through 1972 and therefore exceed net income after the charge equivalent to federal taxes on income.

EARNINGS

- Net Income: Thousands of Dollars
- Earnings per Share: Dollars





WD-40 World Headquarters, San Diego, California

WD-40 COMPANY, 1061 CUDAHY PLACE, SAN DIEGO, CA 92110