

WD-40 Company 1994 Annual Report
Year Ended August 31



Highlights of the Three Years Ended August 31

	1994	1993	1992
Net Sales	\$112,166,000	\$108,964,000	\$99,964,000
Net Income	\$ 12,683,000	\$ 19,330,000	\$18,073,000
Earnings Per Share	\$1.65	\$2.52	\$2.38
Dividends Per Share	\$2.30	\$2.30	\$2.16
Average Number of Shares Outstanding	7,686,124	7,660,462	7,594,243
Shares Outstanding at Year-End	7,692,975	7,670,781	7,647,892
Number of Shareholders	2,499	2,420	2,399
Number of Employees	144	143	136

Highlights of Fiscal 1994:

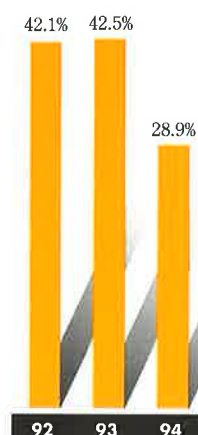
- Current Ratio: 5.6 to 1
- Net Sales per Employee: \$779,000
- Receivables to Net Sales: 13.3%
- Inventories to Net Sales: 2.2%*
- Net Income to Average Shareholder Equity: 28.9%

* Does not include effect of product held at contract packagers.

Net Sales
(Dollars shown in thousands)



Net Income to Average Shareholder Equity



Earnings Per Share



Dividends Per Share



October 28, 1994

To Our Shareholders:

Fiscal year 1994 turned out to be one of those "good news/bad news" years for your Company. On the plus side, sales hit a record \$112 million and your dividends held constant at \$2.30 per share. On the down side, we did lose our hard fought appeal in the "Breach of Contract" lawsuit and paid out \$12.6 million in satisfaction of the judgment.

Highlights Of The Year

Net Sales were up 2.9% over 1993. North America was down slightly following two very strong growth years, however, international net sales were up an average of 16%. U.K. and European net sales were up 15%, the Pacific Rim was up 20% and Latin America was up 35%. You should be very pleased with these gains around the world, where international sales now account for approximately 37% of the total \$112 million.

Operating Income dipped slightly from last year due to higher product costs and marginally increased overheads coming in at \$32.4 million versus \$33.0 million last year - down 1.9 percentage points.

Net Income was \$12.7 million, down 34% from last year's \$19.3 million, due to the legal expense. On a per share basis, this was \$1.65 versus \$2.52 in fiscal year 1993.

If we factored out the legal expenses for both years, the per share earnings would have been down slightly at \$2.67 this year versus \$2.73 last year.

The Global Marketplace continues to provide a challenge, which your dedicated employees will respond to and will strive for ever higher levels of achievement. This is evidenced by the fact that your U.S. based Company is becoming more global in scope each year.

On The New Product Front, several dozen products were evaluated during this past year, without finding a viable candidate. We will continue our vigorous activities in this area in hopes of finding a viable product in 1995.

As You Know, the business world is not without risks and following are some areas that could affect the WD-40 Company:

Environmental laws continue to affect all levels of society. At some point in time we, along with thousands of other consumer products companies, could be forced to modify our product to meet VOC (volatile organic compound) regulations. If so, the financial impact to all affected companies is unknown. At the present time there are no regulations applicable to WD-40.

Changing policies of key accounts around the world could have both positive or negative effects on our business.

Litigation is always lurking in the wings, however, through responsible management we strive to minimize the Company's legal exposure.

The Outlook for the WD-40 Company continues to be optimistic. Even though WD-40 is a mature brand in North America, there is tremendous potential for growth in the rest of the world.

We are well positioned to expand sales in Europe, Latin America and the Pacific Rim. Management, again, looks forward to achieving record sales, earnings and increased dividends in fiscal year 1995.

Sincerely,



Gerald C. Schleif
President,
Chief Executive Officer

The Company

Corporate Objectives

Management is dedicated to the objectives of increasing corporate earnings and dividends by winning the end-users' brand loyalty for your Company's only product, WD-40. The Company would consider adding another product if it is determined that the Company can make a decisive contribution to that product's growth in the area of marketing-distribution. The product would, of course, have to have an attractive profit potential.

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 world. The well-established growth pattern of 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 any group of end-users.

Over the years the high visibility of our success in the United States has spawned envy and lured literally hundreds of imitators into the marketplace. WD-40's strong brand loyalty with the end-user has resulted in our withstanding these attempted intrusions even when launched by billion-dollar companies.

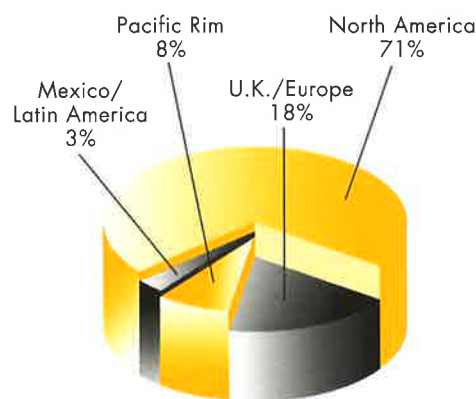
Global Marketing

WD-40 is currently sold in over 115 countries using 30 languages. In each country there are diverse groups of end-users who use WD-40 for a wide range of uses. These groups represent a multitude of markets that must be accessed through a spectrum of trade channels including automotive, hardware, drug, grocery, industrial and farm.

WD-40's experience in this complex global marketplace presents us with a vast marketing knowledge and resource base. Marketing ideas born in one country now quickly spread to others. Promotional concepts developed in the United States are used in Canada, Latin America and the Pacific Rim. The United States has adopted an advertising idea born in Australia and a United Kingdom public relations program migrated to North America and Australia.

This global marketing integration allows us to bypass the initial stages of learning curves and execute highly successful programs as we enter and develop new markets around the world.

Sales by Region



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 the critical success areas of:

- sales policies
- marketing plan formulation
- implementation of marketing plans

Other vital functions handled internally are; order handling, credit, WD-40 concentrate formulation, and quality control.

North and South American operations are based in San Diego. WD-40 concentrate for North America is formulated in San Diego and packaged in Los Angeles, Texas, Georgia, Massachusetts, Wisconsin and Toronto, Canada.

The San Diego facility also oversees providing distributors and licensees in Mexico, the Caribbean, Central America, South America, the Pacific Rim and Southeast Asia with finished product and concentrate for packaging of finished product in Australia.

Europe, the Middle East and Africa are served from our European headquarters located in Milton Keynes, England. WD-40 concentrate is formulated there and converted to ready-to-sell WD-40 by two English contract packagers.

Our Australian subsidiary is responsible for marketing WD-40 in Australia, New Zealand, Southeast Asia and the Far East. Sales outside of Australia and New Zealand are recorded by the parent Company.

Price Waterhouse LLP



October 4, 1994

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of WD-40 Company and its subsidiaries at August 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

San Diego, California

WD-40 Company Consolidated Statement of Income

	Year ended August 31		
	1994	1993	1992
Net sales	\$112,166,000	\$108,964,000	\$ 99,964,000
Interest income, net	621,000	897,000	1,248,000
Other income, net	107,000	297,000	15,000
	<u>112,894,000</u>	<u>110,158,000</u>	<u>101,227,000</u>
Cost and expenses:			
Cost of product sold	47,028,000	44,686,000	42,217,000
Selling, general and administrative	22,185,000	21,333,000	20,472,000
Advertising and sales promotion	10,570,000	9,909,000	9,065,000
Legal expense	12,628,000	2,500,000	
	<u>92,411,000</u>	<u>78,428,000</u>	<u>71,754,000</u>
Income before income taxes	20,483,000	31,730,000	29,473,000
Provision for income taxes	7,800,000	12,400,000	11,400,000
Net income	<u>\$ 12,683,000</u>	<u>\$ 19,330,000</u>	<u>\$ 18,073,000</u>
Earnings per share	<u>\$ 1.65</u>	<u>\$ 2.52</u>	<u>\$ 2.38</u>
Average number of shares outstanding	<u>7,686,124</u>	<u>7,660,462</u>	<u>7,594,243</u>

See accompanying notes to consolidated financial statements.

WD-40 Company Consolidated Balance Sheet

Assets

	August 31	
	1994	1993
Current assets:		
Cash and cash equivalents	\$13,515,000	\$10,882,000
Short-term investments	9,156,000	10,979,000
Trade accounts receivable, less allowance for cash discounts and doubtful accounts of \$443,000 and \$553,000	14,875,000	13,964,000
Product held at contract packagers	3,767,000	
Inventories	2,470,000	5,515,000
Prepaid expenses	1,703,000	1,905,000
Total current assets	45,486,000	43,245,000
Property, plant and equipment, net	3,159,000	3,108,000
Investment with bonding agency		8,117,000
Long-term investments	4,711,000	3,000,000
Other assets	1,516,000	1,314,000
	<u>\$54,872,000</u>	<u>\$58,784,000</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,298,000	\$ 4,182,000
Accrued payroll and related expenses	2,372,000	2,833,000
Income taxes payable	902,000	2,375,000
Current portion of long-term debt	615,000	349,000
Total current liabilities	8,187,000	9,739,000
Long-term debt	3,791,000	2,651,000
Deferred employee benefits	799,000	701,000
	<u>4,590,000</u>	<u>3,352,000</u>
Shareholders' equity:		
Common stock, no par value, 9,000,000 shares authorized - shares issued and outstanding of 7,692,975 and 7,670,781	5,720,000	5,180,000
Paid-in capital	321,000	221,000
Retained earnings	36,433,000	41,428,000
Deferred stock compensation	(29,000)	
Cumulative translation adjustment	(350,000)	(1,136,000)
Total shareholders' equity	42,095,000	45,693,000
Commitments and contingencies (Note 10)		
	<u>\$54,872,000</u>	<u>\$58,784,000</u>

See accompanying notes to consolidated financial statements.

WD-40 Company Consolidated Statement of Shareholders' Equity

	Common Stock		Paid-in	Retained	Deferred	Cumulative
	Shares	Amount	Capital	Earnings	Stock Compensation	Translation Adjustment
Balance at August 31, 1991	7,556,508	\$2,633,000	\$121,000	\$38,049,000		\$ (114,000)
Issuance of common stock upon exercise of options	126,017	3,426,000	100,000			
Repurchase of common stock upon exercise of options	(34,633)	(1,443,000)				
Cash dividends				(16,403,000)		
Change in cumulative translation adjustment						769,000
Net income				18,073,000		
Balance at August 31, 1992	7,647,892	4,616,000	221,000	39,719,000		655,000
Issuance of common stock upon exercise of options	29,978	893,000				
Repurchase of common stock upon exercise of options	(7,089)	(329,000)				
Cash dividends				(17,621,000)		
Change in cumulative translation adjustment						(1,791,000)
Net income				19,330,000		
Balance at August 31, 1993	7,670,781	5,180,000	221,000	41,428,000		(1,136,000)
Issuance of common stock upon exercise of options	30,965	961,000				
Repurchase of common stock upon exercise of options	(8,771)	(421,000)				
Cash dividends				(17,678,000)		
Compensatory stock options			100,000		(29,000)	
Change in cumulative translation adjustment						786,000
Net income				12,683,000		
Balance at August 31, 1994	7,692,975	\$5,720,000	\$321,000	\$36,433,000	\$(29,000)	\$ (350,000)

See accompanying notes to consolidated financial statements.

WD-40 Company Consolidated Statement of Cash Flows

	Year ended August 31		
	1994	1993	1992
Cash flows from operating activities:			
Net income	\$12,683,000	\$19,330,000	\$18,073,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	844,000	551,000	551,000
Loss on sale of equipment	39,000	176,000	72,000
Non-cash compensation	100,000		
Changes in assets and liabilities:			
Accounts receivable	(838,000)	905,000	(1,994,000)
Product held at contract packagers	(3,767,000)		
Inventories	3,103,000	(1,219,000)	(229,000)
Prepaid expenses	215,000	(133,000)	(533,000)
Other assets	(168,000)	(324,000)	(156,000)
Accounts payable and accrued expenses	(427,000)	843,000	1,010,000
Income taxes payable	(1,483,000)	1,122,000	(21,000)
Long-term deferred employee benefits	98,000	701,000	
Long-term deferred income taxes	(37,000)	(91,000)	34,000
Net cash provided by operating activities	10,362,000	21,861,000	16,807,000
Cash flows from investing activities:			
Decrease in short-term investments	1,739,000	756,000	3,631,000
Decrease (increase) in investment with bonding agency	8,117,000	157,000	(8,274,000)
Proceeds from sale of equipment	170,000	303,000	206,000
Capital expenditures	(796,000)	(1,357,000)	(678,000)
Net cash provided by (used in) investing activities	9,230,000	(141,000)	(5,115,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock	540,000	564,000	2,083,000
Repayments of long-term debt	(594,000)		
Deferred stock compensation	(29,000)		
Dividends paid	(17,678,000)	(17,621,000)	(16,403,000)
Net cash used in financing activities	(17,761,000)	(17,057,000)	(14,320,000)
Effect of exchange rate changes on cash	802,000	(874,000)	536,000
Increase (decrease) in cash and cash equivalents	2,633,000	3,789,000	(2,092,000)
Cash and cash equivalents at beginning of year	10,882,000	7,093,000	9,185,000
Cash and cash equivalents at end of year	\$13,515,000	\$10,882,000	\$ 7,093,000
Non-cash investing and financing activities:			
Long-term investment in low income housing (Note 8)	\$ 2,000,000	\$ 3,000,000	
Long-term debt related to low income housing investment (Note 8)	\$ 2,000,000	\$ 3,000,000	
Repurchase of common stock upon exercise of options	\$ 421,000	\$ 329,000	\$ 1,443,000

See accompanying 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 subsidiaries, WD-40 Products (Canada) Ltd., WD-40 Company Ltd. (U.K.) and WD-40 Company (Australia) Pty. Ltd. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition

Revenues are recognized upon the shipment of product to third party wholesalers.

Inventories

Inventories are stated at the lower of average cost or market. The inventory balance primarily represents inventory owned by WD-40 Company Ltd. (U.K.) and concentrate owned by WD-40 Company (U.S.).

Product Held at Contract Packagers

Product held at contract packagers represents the inventory held at United States, Australian and Canadian contract packagers underlying their obligation to pay the Company for the inventory acquired during 1994.

These contract packagers will continue to package WD-40 to rigid specifications and upon order from WD-40 Company ship ready-to-sell WD-40 to the Company's customers. The United States contract packagers, rather than the Company, will now be responsible for inventory control. The Company does not record a sale on the inventory held at contract packagers until such inventory is purchased by third party wholesalers.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation has been computed principally using the straight-line method based upon estimated useful lives of thirty to forty years for buildings and improvements and three to fifteen years for machinery and equipment.

Foreign Currency Translation

The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of income and are not material.

Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding during each year increased by the effect of dilutive stock options, when applicable, using the treasury stock method.

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 differences in financial reporting and tax bases of assets and liabilities. Deferred income tax expense is the net change during the year in the deferred income tax liability or asset.

Effective September 1, 1992, the Company adopted Statement of Financial Accounting Standard No. 109 "Accounting for Income Taxes" (SFAS No. 109) which supersedes SFAS No. 96, the Company's previous method of accounting for income taxes. The Company adopted SFAS No. 109 prospectively with no significant impact on fiscal year 1993 financial statements.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

Investments

Investments are valued at amortized cost which approximates fair market value.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities", which the Company will adopt prospectively in 1995. Application of this accounting treatment is not expected to have a significant effect on the Company's financial position or results of operations.

Advertising Costs

The Company expenses the production costs of advertising when the liabilities arise.

Diversification of Credit Risk

The Company's policy is to place its cash, cash equivalents and investments in high credit quality financial institutions, government agencies and corporate entities and to limit the amount of credit exposure.

Reclassifications

Certain 1993 and 1992 balances have been reclassified to conform to the 1994 presentation.

Note 2 - Selected Financial Statement Information

	August 31	
	1994	1993
Inventories:		
Finished goods	\$ 2,173,000	\$ 5,241,000
Raw materials	297,000	274,000
	<u>\$ 2,470,000</u>	<u>\$ 5,515,000</u>
Property, plant and equipment:		
Land	\$ 254,000	\$ 254,000
Building and improvements	1,721,000	1,699,000
Machinery and equipment	3,891,000	3,501,000
	<u>5,866,000</u>	<u>5,454,000</u>
Accumulated depreciation	<u>(2,707,000)</u>	<u>(2,346,000)</u>
	<u>\$ 3,159,000</u>	<u>\$ 3,108,000</u>

Note 3 - Business Segment and Foreign Operations

The Company operates in one business segment - the manufacture and sale of a multi-purpose lubricant principally through retail chain stores, automotive parts outlets and industrial distributors and suppliers.

Information regarding the Company's operations in different geographic areas is summarized below. WD-40 Company (U.S.) includes all domestic and intercompany sales, as well as sales to the Caribbean, Mexico, South America and the Pacific Rim, except for Australia and New Zealand. WD-40 Company Ltd. (U.K.) includes sales to Europe, the Middle East and Africa. WD-40 Products (Canada) Ltd. and WD-40 Company (Australia) Pty. Ltd. are included in other foreign subsidiaries. Substantially all sales by these operations are to customers within Canada and Australia.

	Year ended August 31		
	1994	1993	1992
Net sales:			
WD-40 Company (U.S.)	\$ 83,550,000	\$ 83,245,000	\$ 75,520,000
WD-40 Company Ltd. (U.K.)	20,129,000	17,573,000	17,498,000
Other foreign subsidiaries	9,577,000	9,535,000	8,617,000
Intercompany	(1,090,000)	(1,389,000)	(1,671,000)
	<u>\$112,166,000</u>	<u>\$108,964,000</u>	<u>\$ 99,964,000</u>
Operating profit:			
WD-40 Company (U.S.)	\$ 24,480,000	\$ 26,201,000	\$ 24,619,000
WD-40 Company Ltd. (U.K.)	5,462,000	4,044,000	3,046,000
Other foreign subsidiaries	2,441,000	2,791,000	545,000
Interest income, net	621,000	897,000	1,248,000
Other income, net	107,000	297,000	15,000
Legal expense	(12,628,000)	(2,500,000)	
Income before income taxes	<u>\$ 20,483,000</u>	<u>\$ 31,730,000</u>	<u>\$ 29,473,000</u>
Identifiable assets:			
WD-40 Company (U.S.)	\$ 42,421,000	\$ 43,110,000	\$ 39,150,000
WD-40 Company Ltd. (U.K.)	8,810,000	10,791,000	9,000,000
Other foreign subsidiaries	3,641,000	4,883,000	5,446,000
	<u>\$ 54,872,000</u>	<u>\$ 58,784,000</u>	<u>\$ 53,596,000</u>

Note 4 - Income Taxes

Effective September 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109) which superseded SFAS No. 96, the Company's previous method of accounting for income taxes.

The provision for income taxes includes the following:

	Year ended August 31		
	1994	1993	1992
Current tax provision:			
United States	\$ 3,531,000	\$ 7,982,000	\$ 7,759,000
State	1,600,000	1,900,000	2,000,000
Foreign	2,796,000	2,931,000	1,662,000
Total current	<u>7,927,000</u>	<u>12,813,000</u>	<u>11,421,000</u>
Deferred tax (benefit) provision:			
United States	(131,000)	(382,000)	141,000
Foreign	4,000	(31,000)	(162,000)
Total deferred	<u>(127,000)</u>	<u>(413,000)</u>	<u>(21,000)</u>
	<u>\$ 7,800,000</u>	<u>\$12,400,000</u>	<u>\$11,400,000</u>

Deferred tax assets are comprised of the following:

	August 31, 1994	August 31, 1993
State income taxes	\$ 292,000	\$ 305,000
Foreign tax credit	204,000	91,000
Net operating losses of subsidiary	109,000	
Reserves and allowances	104,000	101,000
Other	35,000	45,000
Gross deferred tax assets	<u>744,000</u>	<u>542,000</u>
Deferred tax assets valuation allowance	<u>(109,000)</u>	
	<u>\$ 635,000</u>	<u>\$ 542,000</u>

Long-term deferred tax assets and (liabilities) are comprised of the following:

	August 31, 1994	August 31, 1993
Depreciation	\$ (196,000)	\$ (150,000)
Deferred compensation	334,000	295,000
Other	41,000	
	<u>\$ 179,000</u>	<u>\$ 145,000</u>

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes follows:

	Year ended August 31		
	1994	1993	1992
Amount computed at U.S. statutory federal rate	\$ 7,169,000	\$11,106,000	\$10,021,000
State income taxes, net of federal benefit	1,040,000	1,235,000	1,320,000
Competent authority refund	(345,000)		
Other	(64,000)	59,000	59,000
	<u>\$ 7,800,000</u>	<u>\$12,400,000</u>	<u>\$11,400,000</u>

The Company has fully reserved the deferred tax asset generated by its Australian subsidiary.

Income taxes paid in 1994, 1993 and 1992 amounted to \$9,221,000 and \$11,017,000 and \$11,657,000, respectively.

Note 5 - Stock Options

The Company has an Incentive Stock Option Plan whereby the Board of Directors may grant officers and key employees options to purchase an aggregate of not more than 240,000 shares of the Company's common stock at a price not less than 100 percent of the fair market value of the stock at the date of grant. Options are generally exercisable one year after grant and may not be granted for terms in excess of ten years. At August 31, 1994 options for 97,165 shares were exercisable and options for 37,002 shares were available for future grants.

A summary of the changes in options outstanding under the Company's Stock Option Plan during the three years ended August 31, 1994 is as follows:

	Number of shares	Option price per share
Outstanding at August 31, 1991	184,391	\$19.50 - \$34.25
Options granted	54,800	\$30.88
Options exercised	(126,017)	\$19.50 - \$34.25
Options canceled	(7,500)	\$19.50 - \$34.25
Outstanding at August 31, 1992	105,674	\$19.50 - \$34.25
Options granted	57,500	\$40.00
Options exercised	(29,978)	\$19.50 - \$34.25
Options canceled	(600)	\$40.00
Outstanding at August 31, 1993	132,596	\$24.50 - \$40.00
Options granted	54,700	\$47.50
Options exercised	(30,965)	\$24.50 - \$40.00
Options canceled	(7,011)	\$30.88 - \$47.50
Outstanding at August 31, 1994	<u>149,320</u>	<u>\$24.50 - \$47.50</u>

Note 6 - Employee Benefit Plans

The Company has a combined Money Purchase Pension Plan and Profit Sharing Plan for the benefit of its regular full-time employees. The Plans provide for annual contributions into a trust to the extent of 10% of covered employee compensation for the Money Purchase Pension Plan and as approved by the Board of Directors for the Profit Sharing Plan, but which may not exceed the amount deductible for income tax purposes. The Plans may be amended or discontinued at any time by the Company. Plan expenses for 1994, 1993 and 1992 approximated \$987,000, \$965,000 and \$895,000, respectively.

The Company has a Salary Deferral Employee Stock Ownership Plan whereby regular full-time employees who have completed one year of service can defer a portion of their income through contributions to a trust. The Plan provides for Company contributions to the trust, as approved by the Board of Directors, equal to fifty percent or more of the compensation deferred by employees, but not in excess of the amount deductible for income tax purposes. Company contributions to the trust are invested in the Company's common stock. The Plan may be amended or discontinued at any time by the Company. Company contribution expense for 1994, 1993 and 1992 was approximately \$118,000, \$44,000 and \$93,000, resp

The Company has agreed to provide fixed retirement benefits to certain of its key executives. The Company's gross liability related to these agreements approximates \$2,570,000 of which \$799,000, representing the present value of these obligations to employees for service through August 31, 1994, has been accrued.

The Company has life insurance policies on certain of its key executives. As of August 31, 1994, the aggregate cash surrender value of these policies is \$1,337,000 which is included in other assets. Keyman life insurance premiums paid by the Company in 1994, 1993 and 1992 were \$91,000, \$91,000 and \$107,000, respectively.

Note 7 - Significant Customer

In 1994, sales to one customer amounted to \$12,027,000. Accounts receivable for this customer equated to \$2,190,000 at August 31, 1994.

Note 8 - Long-Term Investment and Related Debt

On August 31, 1993 and December 13, 1994, the Company purchased partnership units in a low income housing tax credit fund for \$3,000,000 and \$2,000,000, respectively. The Company's decision to invest in the fund was due to the favorable tax credits that are available over the investment period of 15 years, subject to certain tax restrictions. The investment will be accounted for under the cost method and is being amortized on a straight line basis over 15 years. Amortization expense recorded in 1994 for this investment was \$289,000. The Company entered into seven year promissory notes to fund its investments in the low income housing tax credit fund. Each note is secured by the corresponding investment and bears interest at 7.0%. Interest and principal payments on each note are \$559,000 and \$370,000, respectively, due annually each January through 2000. Interest paid in fiscal 1994 was \$98,000.

Note 9 - Settlement of Litigation

In February 1989, an action was filed against the Company in the Superior Court of California by eight former commissioned sales representatives. The plaintiffs alleged that their contracts were wrongfully terminated when the Company replaced all of its United States commissioned sales representatives with an in-house sales force. In January 1992, a jury awarded the plaintiffs damages for breach of contract in the amount of \$10,291,000. Subsequent to the California Supreme Court's denial of the Company's petition for review in April 1994, the Company paid the original judgment, accrued interest and court costs of \$12,628,000 in final settlement of this matter.

During April 1992, an action was brought against the Company by two former commissioned sales corporations. The action arose out of similar circumstances as the above-referenced action brought against the Company in 1989. On April 8, 1993, the Company reached an out-of-court settlement for the total sum of \$2,500,000 which is recorded as legal expense in fiscal year 1993. This settlement did not constitute an admission of liability by WD-40 Company for any of the claims asserted in the action.

Note 10 - Commitments and Contingencies

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or will not have a material adverse effect on the Company's financial position or results of operations.

The Company was committed under certain noncancelable operating leases at August 31, 1994 which provide for the following minimum lease payments: 1995, \$138,000; 1996, \$139,000; 1997, \$76,000; 1998, \$47,000; 1999, \$17,000. Rent expense for the years ended August 31, 1994, 1993 and 1992 approximated \$154,000, \$165,000 and \$137,000, respectively.

Note 11 - Subsequent Event

On September 26, 1994, the Company declared cash dividend of \$.60 per share payable on October 28, 1994 to shareholders of record on October 11, 1994.

Quarterly Financial Information (Unaudited)

The following table sets forth certain unaudited quarterly financial information for the two years ended August 31, 1994.

<u>Quarter ended:</u>	<u>Net Sales</u>	<u>Gross Profit</u>	<u>Net Income (loss)</u>	<u>Earnings (loss) Per Share</u>
November 30, 1992	\$ 24,621,000	\$14,675,000	\$ 4,919,000	\$.64
February 28, 1993	29,373,000	17,278,000	6,303,000	.82
May 31, 1993	29,306,000	16,866,000	3,552,000	.46
August 31, 1993	25,664,000	15,459,000	4,556,000	.60
	<u>\$108,964,000</u>	<u>\$64,278,000</u>	<u>\$19,330,000</u>	<u>\$2.52</u>
November 30, 1993	\$ 28,882,000	\$16,671,000	\$ 5,214,000	\$.68
February 28, 1994	27,555,000	16,150,000	(2,709,000)	(.35)
May 31, 1994	29,459,000	16,872,000	5,270,000	.68
August 31, 1994	26,270,000	15,445,000	4,908,000	.64
	<u>\$112,166,000</u>	<u>\$65,138,000</u>	<u>\$12,683,000</u>	<u>\$1.65</u>

Stock Information

<u>Period:</u>	<u>Fiscal 1994</u>			<u>Fiscal 1993</u>		
	<u>High</u>	<u>Low</u>	<u>Dividend</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
First Quarter	48 3/4	43	\$.50	44 1/4	38 1/2	\$.60
Second Quarter	48 3/4	43	.60	48	41	.45
Third Quarter	44 1/2	38 1/2	.60	47 1/2	43	.80
Fourth Quarter	42	37 3/4	.60	48 3/4	44 7/8	.45

The high and low sales prices are as quoted in the Wall Street Journal.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

WD-40 Company (U.S.)

1994 vs. 1993 Net sales hit a record high of \$82.5 million, an increase of \$604,000 or 0.7% over the prior year.

Increased export sales to Latin America and the Pacific Rim accounted for \$10.6 million or 13% of net sales, up \$2.5 million or 30.5% from 1993, offsetting reduced domestic sales that were down 2.2% or \$1.6 million.

In the U.S., net sales were off due to a handful of accounts that were undergoing reorganization, hence their purchases were down from previous years. On the export side, marketing plans were effectively implemented allowing for the achievement of sales targets. We expect domestic sales in the U.S. to rebound in fiscal year 1995. Cost of product sold increased to 42.0% of net sales compared to 41.1% in fiscal year 1993. This increase was due to inflationary pressures, as well as the higher cost associated with promotional packaging. Inflation is expected to further impact costs in 1995. Selling, general and administrative expenses increased by \$729,000; going from 18.4% of net sales in 1993 to 18.9% of net sales in 1994. This was due to increased costs associated with most of the overhead items. Advertising and promotions also increased to 9.0% of net sales versus 8.5% in 1993. These expenses were on budget and increased as a percentage of net sales due to the shortfall in domestic sales.

As a result of these increased operating expenses, operating profit decreased by \$1.7 million or 6.6%. During 1994, legal expenses of \$12.6 million were recorded representing the original judgment, interest and court costs for the action brought by eight former commissioned sales representatives (See Note 9).

1993 vs. 1992 Net sales increased \$8,007,000 or 10.8% over the previous year. This record performance was particularly meaningful because it followed a 12.4% gain in 1992. Creative marketing programs were professionally implemented by our sales teams plus, we introduced two new promotional sizes during 1993.

In the Fall, we introduced a "Triple Pac" to the club accounts and in the Spring a special 40th Anniversary "Bonus Ounce" offering 25% more free. This promotion was enthusiastically accepted by both the trade and the consumer.

Export sales continued to expand in both Latin America and the Pacific Rim, growing by over 25% this year.

Cost of product sold as a percentage of net sales increased to 41.1% versus 40.8% last year, due totally to the additional costs associated with the two new promotional sizes. As a percentage of net sales, selling, general and administrative was 18.4% versus 18.0% in 1992. Advertising and promotional expenses were 8.5% of net sales versus 7.9% last year primarily due to the Pacific Rim marketing expenses being recorded by the U.S. corporation versus the Australian subsidiary recording the expense and charging a commission as was done in prior years. Operating income increased by \$1,582,000 or 6.4% and equated to 32.0% of net sales versus 33.3% last year. The U.S. recorded expense of \$2,500,000 related to the out-of-court settlement with two former commissioned sales corporations who originally brought the action against the Company on April 30, 1992.

Effective September 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS No. 109) which supersedes SFAS No. 96, the Company's previous method of accounting for income taxes. The Company adopted SFAS No. 109 prospectively with no significant impact on 1993 financial statements.

WD-40 Company Ltd. (U.K.)

1994 vs. 1993 Net sales increased across all of the subsidiary's territory \$2.6 million or 14.5%. For example: U.K. sales were up 10.1%; France was up 8.5%; Germany was up 48.0%; Spain was up 34.6%; and the Middle East was up 10.9%. These gains were the result of good marketing plans, well implemented by the motivated field personnel. Cost of product sold dipped slightly, as a percentage of net sales, to 38.2% versus 39.4% in 1993. This was due to a shift toward the larger more profitable product sizes. Selling, general and administrative expenses as a percentage of net sales, also dropped to 24.3% versus 26.3% of net sales last year. Dedicated diligence to budget controls helped with this reduction. Advertising and promotions at 10.4% of net sales versus 11.3% last year was again due to tight budget controls.

Operating profit increased by \$1.4 million or 35% due to the increased sales and controlled overheads. Our ongoing objective is to be the brand leader in Prime Europe. Our Northern Italy plans to add two sales people in fiscal year 1994 did not materialize due to uncertain economic conditions, it remains a priority in fiscal year 1995.

1993 vs. 1992 Net sales were up slightly on consolidation when compared to 1992. Even though unit sales were up over 19%, this was totally offset by a strong U.S. dollar when compared to the pound sterling. In unit sales, the U.K. was up 10%, Prime Europe gained 40% and the Middle East improved by 27%.

Cost of product sold as a percentage of net sales continued to decline and came in at 39.4% versus 43.8% last year. The lower product costs were brought about by a change in both of our contract aerosol packagers in the U.K. We would expect future costs to stabilize at these lower levels. Operating income increased a significant \$998,000 or 32.8% as the result of increased sales and a lower cost of product sold. As a percentage of net sales, operating income was 23.0% this year versus 17.4% last year.

The pound sterling continued to weaken against the currencies of its export countries, which provided an exchange gain of \$248,000 versus a foreign exchange loss of \$111,000 in 1992.

The U.K. subsidiary continues to be committed to make WD-40 the brand leader in Prime Europe. Toward that goal, we added two salespeople in Spain during 1993 and plan to add two salespeople in North Italy during 1994.

Other Foreign Subsidiaries

1994 vs. 1993 Net sales increased by a mere \$42,000 or 0.4% over the prior year. In units, Canada increased by 5%, however, this gain was offset out by a negative currency exchange rate. Australia did benefit from a small currency exchange gain to post an overall increase of 9.5%. Modest sales gains are expected in 1995.

Cost of product sold, as a percentage of net sales, rose to 49.0% from 43.2% in 1993. Major increases in component and material costs account for this significant upward change. Selling, general and administrative, and advertising and promotion decreased by \$180,000 or 6.9% as a result of reduced overheads and tight budget controls.

Operating income decreased \$350,000 or 12.5%, due entirely to the increased product costs.

1993 vs. 1992 Net sales increased \$918,000 or 10.7% in spite of a strengthening U.S. dollar by 7.8% and 9.3% compared to the Canadian and Australian dollar respectively. In unit sales, Canada increased over 26% due to the success of the "Twin Pac" (two cans banded together) and the 40th Anniversary "Bonus Ounce" can. Meanwhile, Australia was hampered by their ongoing recessionary economy and posted a marginal gain in unit sales.

Cost of product sold decreased as a percentage of net sales to 43.2% versus 51.6% last year. The decrease was due primarily to the renegotiation of the contract aerosol packager contracts in Canada and the lower inventory carrying costs as WD-40 is now being packaged by a contract packager in Australia versus being shipped to Australia in its final form.

Operating income before taxes increased \$2.2 million, well over a 400% gain. The gain reflects the strong increase in sales in Canada along with reduced costs of product sold and selling, general and administrative.

In Australia, selling, general and administrative expenses were significantly reduced due to the fact that beginning with this fiscal year the parent company began recording the proportional selling, general and administrative and advertising costs related to the Pacific Rim sales where the respective sales have historically been recorded.

Price Increases

Net sales for all operating units are in terms of real growth as there were no price increases enacted in fiscal year 1994.

Cash and Cash Equivalents

Cash and cash equivalents increased \$2,633,000 during 1994 versus the increase of \$3,789,000 for the same period of last year. This increase was due to increases of cash from operating activities of \$10,362,000 (which includes the non-recurring \$12,628,000 legal expense discussed above), an increase of \$9,230,000 from investing activities (which includes \$8,117,000 from maturity of the long-term investment previously restricted by a bonding agency) and a \$802,000 increase attributable to exchange rate fluctuations partially offset by \$17,761,000 from cash used in financing activities.

Interest and Other Income, Net

1994 vs. 1993 Interest income, net decreased \$276,000 due to lower interest rates and reduced short term investments.

Other income, net decreased \$190,000 primarily due to a decrease of exchange gains in the U.K.

1993 vs. 1992 Interest income, net decreased \$351,000 due to lower interest rates and reduced short term investments.

Other income, net increased \$282,000 primarily due to an increase in exchange gains in the U.K.

Liquidity and Capital Resources

The Company has not experienced a significant change in liquidity since August 31, 1993. The current ratio of 5.6 to one on August 31, 1994 was greater than the current ratio of 4.4 to one on August 31, 1993, due mainly to cash provided from operating activities and investment activities. The Company had notes outstanding on August 31, 1994 for \$4,406,000 which were used to purchase partnership units in a Low Income Housing Tax Credit Fund (see Note 8). The Company's cash flows from operations are expected to provide sufficient funds to meet both short and long-term operating needs, as well as future dividends. Capital expenditures for fiscal year 1995 are expected to total approximately \$1,700,000, principally for replacement of aged vehicles and updating of computer equipment.

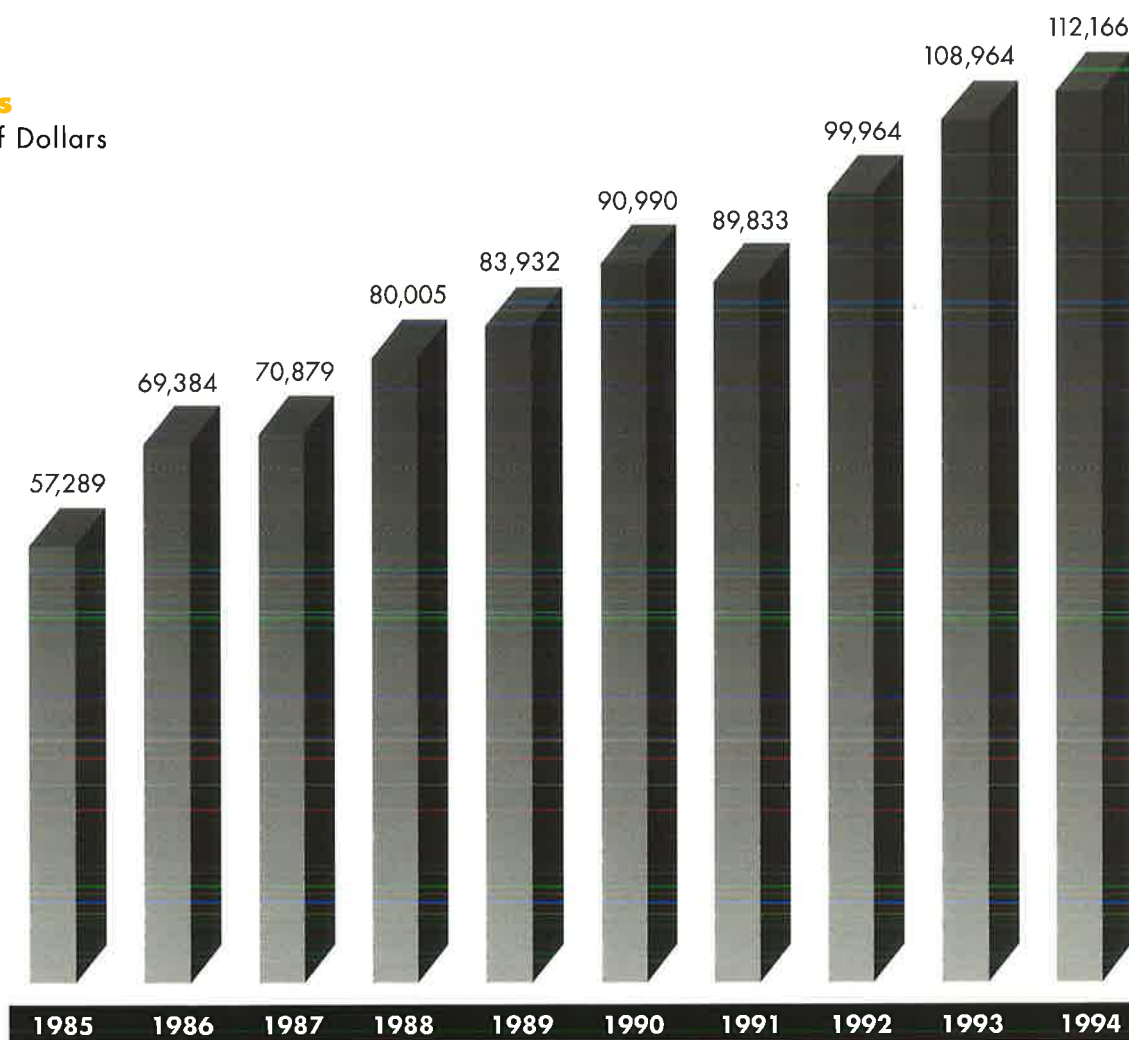
Ten Year Summary

Fiscal Year Ended August 31

	1985	1986	1987
Net sales	\$57,289,000	\$69,384,000	\$70,879,000
Cost of product sold	24,403,000	29,370,000	30,185,000
Gross profit	32,886,000	40,014,000	40,694,000
Selling, general and administrative, and advertising and sales promotion expenses	15,053,000	18,620,000	21,009,000
Interest and other income (expense), net	1,505,000	1,259,000	988,000
Income before income taxes	19,338,000	22,653,000	20,673,000
Provision for income taxes	9,984,000	11,083,000	9,663,000
Net income	\$ 9,354,000	\$11,570,000	\$11,010,000
Earnings per share	\$1.25	\$1.54	\$1.46
Average number of shares outstanding	7,498,024	7,503,679	7,516,652
Dividends per share	\$.90	\$1.04	\$1.47
Total assets	\$32,871,000	\$38,506,000	\$39,149,000
Number of employees	49	56	61

Net Sales

Thousands of Dollars

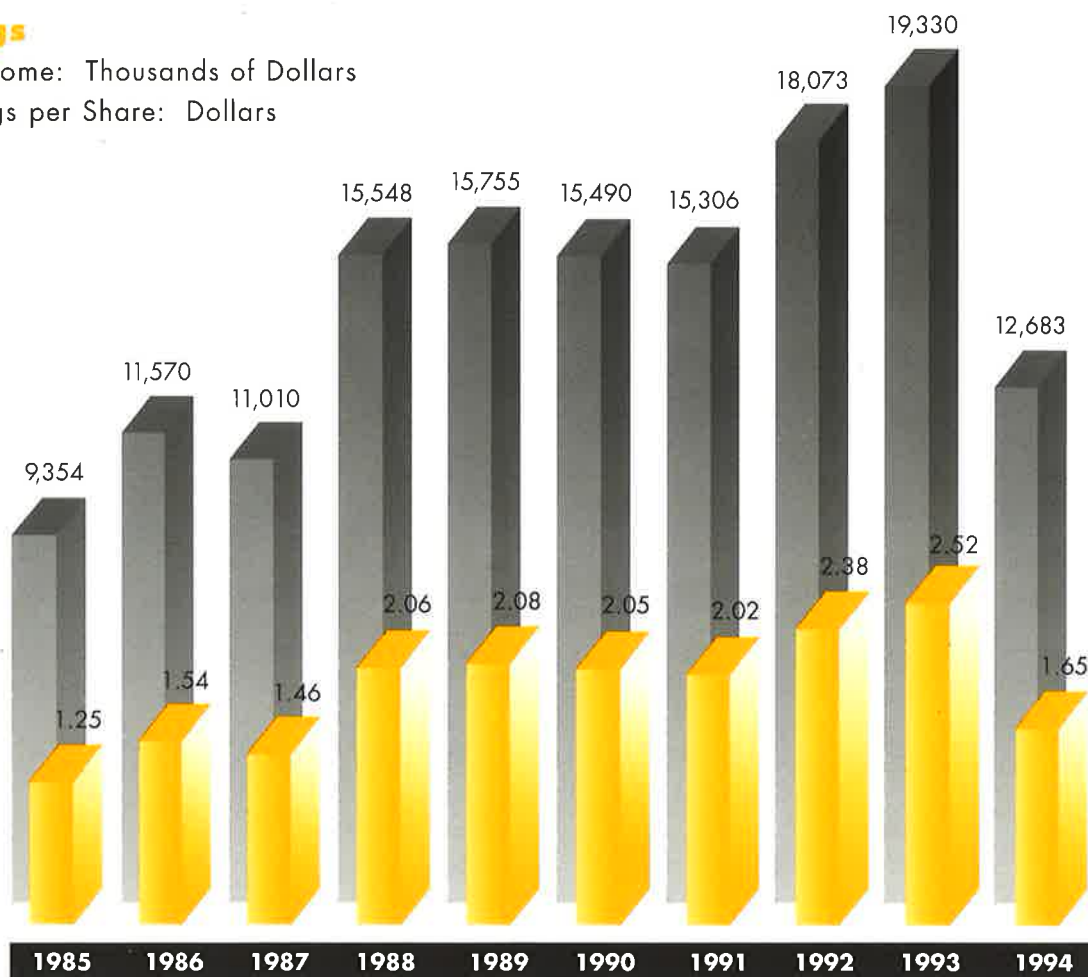


1988	1989	1990	1991	1992	1993	1994
\$80,005,000	\$83,932,000	\$90,990,000	\$89,833,000	\$99,964,000	\$108,964,000	\$112,166,000
33,931,000	36,347,000	40,446,000	39,828,000	42,217,000	44,686,000	47,028,000
46,074,000	47,585,000	50,544,000	50,005,000	57,747,000	64,278,000	65,138,000
21,891,000	23,744,000	27,274,000	26,305,000	29,537,000	31,242,000	32,755,000
1,235,000	2,084,000	1,910,000	1,406,000	1,263,000	(1,306,000)	(11,900,000)
25,418,000	25,925,000	25,180,000	25,106,000	29,473,000	31,730,000	20,483,000
9,870,000	10,170,000	9,690,000	9,800,000	11,400,000	12,400,000	7,800,000
\$15,548,000	\$15,755,000	\$15,490,000	\$15,306,000	\$18,073,000	\$19,330,000	12,683,000
\$2.06	\$2.08	\$2.05	\$2.02	\$2.38	\$2.52	\$1.65
7,527,507	7,552,114	7,554,154	7,555,948	7,594,243	7,660,462	7,686,124
\$1.63	\$1.90	\$2.02	\$1.72	\$2.16	\$2.30	\$2.30
\$43,312,000	\$44,640,000	\$46,785,000	\$47,752,000	\$53,596,000	\$58,784,000	\$54,872,000
79	133	136	134	136	143	144

Earnings

■ Net Income: Thousands of Dollars

■ Earnings per Share: Dollars



Corporate Information

Board of Directors

John S. Barry

Chairman of the Board, WD-40 Company
Retired; Former Chief Executive Officer, WD-40 Company

Sam Crivello

Investor

Daniel W. Derbes

President, Signal Ventures

Harlan F. Harmsen

Retired Attorney; Secretary, WD-40 Company

Jack L. Heckel

Retired; Former President and Chief Operating Officer, GenCorp

Margaret L. Roulette

Investor

Gerald C. Schleif

President, Chief Executive Officer, WD-40 Company

C. Fredrick Sehnert

Chairman and Chief Executive Officer, Laser Precision Corp.

Edward J. Walsh

President, The Sparta Group, Ltd.

Officers

Gerald C. Schleif

President, Chief Executive Officer

Paul A. Thompson

Vice President-Sales and Marketing, North America

Harlan F. Harmsen

Secretary

Robert D. Gal

Treasurer and Assistant Secretary

General Counsel

Harmsen, Carpenter, Sidell & Olson
A Law Corporation

Independent Accountants

Price Waterhouse LLP
San Diego, California

Transfer Agent & Registrar

Harris Trust Company of California
707 Wilshire Blvd., Suite 4840
Los Angeles, California 90017

Annual Meeting

2:00 P.M., November 29, 1994
Carmel Room
Mission Valley Hilton
901 Camino del Rio South
San Diego, California 92108

Corporate Office

1061 Cudahy Place
San Diego, California 92110
619/275-1400

Subsidiaries

WD-40 Company Ltd. (U.K.)
WD-40 Products (Canada) Ltd.
WD-40 Company (Australia) Pty. Ltd.

Listed

Over the Counter
Nasdaq National Market System
Symbol WDFC

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 1994 by writing to the Secretary, WD-40 Company, P.O. Box 80607, San Diego, California 92138-0607.

This image shows a full page of blank, lined paper. It features approximately 20 evenly spaced horizontal grey lines across its entire width, typical of notebook or legal stationery. The paper is otherwise completely empty, with no text, markings, or illustrations.

