



# FORM 10-K405

**WD 40 CO - WDFC**

**Filed: November 23, 1999 (period: August 31, 1999)**

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended  
AUGUST 31, 1999

Commission File No.  
0-6936-3

WD-40 COMPANY  
(Exact Name of Registrant as specified in Charter)

CALIFORNIA  
-----  
(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, NO PAR VALUE  
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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 X 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: X.  
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The aggregate market value (closing price) of the voting stock held by non-affiliates of the Registrant as of October 18, 1999 was \$311,390,000.

As of October 18, 1999 the Registrant had 15,562,811 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE  
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The Proxy Statement for the annual meeting of shareholders on December 14, 1999 is incorporated by reference into PART III, Items 10-13.

PART I

ITEM 1 - BUSINESS

(a) General Development of Business.

For more than four decades, WD-40 Company sold only one petroleum-based product, known as "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 from affiliates of Reckitt & Colman, P.L.C. 3-IN-ONE Oil is a lower cost general purpose lubricant that is useful when precise applications of a lubricant are needed. In April 1999, the Company acquired the Lava brand of heavy-duty hand cleaners from Block Drug Company. The three brands complement each other, providing the Company with a line of both lubricant and heavy-duty hand cleaning products aimed at the Do-It-Yourself (DIY), hardware, automotive and other retail and industrial markets.

Shortly after the Lava acquisition, the Company decided to discontinue marketing the T.A.L 5 lubricant which had been developed internally.

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 has been using this distribution network to introduce the WD-40 brand to these markets and to add distribution channels to markets that have been previously established. One effect of this trend has been a reduction in 3-IN-ONE sales in certain markets as sales of those products are replaced by sales of WD-40.

In fiscal 1999, the Company acquired the Lava brand of heavy-duty hand cleaners from Block Drug Company, Inc. The Lava brand is more than 100 years old and is well recognized by U.S. consumers. Because the characteristics of the Lava consumer are similar to those of the WD-40 consumer, the Company feels that the strength of the WD-40 brand name will be an effective vehicle in promoting the growth of Lava in the U.S. In addition, the Company saw opportunities to develop the brand internationally and in distribution channels in which the brand has not yet been sold. In August 1999, the Company announced the introduction of several new products to augment the Lava product line, including the Lava Heavy-Duty Hand Cleaner Towel and several new sizes of the Lava Liquid Hand Soap.

During fiscal 1999, the Company determined that the market potential for the T.A.L 5 product was below the level that would warrant further allocation of resources. A thorough analysis of the potential for this brand led to the decision to discontinue marketing the product.

(b) Financial Information About Industry Segments.

The Company operates in two markets - the manufacture and sale of multi-purpose lubricants and the manufacture and sale of heavy-duty hand cleaners primarily through retail chain stores, hardware stores, automotive parts outlets, and industrial distributors and suppliers.

(c) Narrative Description of Business.

WD-40 Company manufactures and markets two multi-purpose lubricant products known as "WD-40" and "3-IN-ONE Oil," and the Lava brand of heavy-duty hand cleaners. WD-40 is sold primarily in aerosol cans through retail chain stores, hardware and sporting goods stores, automotive parts outlets and industrial distributors and suppliers. It has a wide variety of consumer uses in, for example, household, marine, automotive, sporting goods, and gardening applications. The product also has numerous industrial applications.

3-IN-ONE Oil is a drip oil lubricant, sold primarily through the same distribution channels as the WD-40 brand. It is a low-cost, entry-level lubricant. The unique drip tip allows precise application for small mechanisms and assemblies, tool maintenance, and threads on screws and bolts. 3-IN-ONE Oil is a 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. The product's high quality and the established distribution network that was acquired with the brand have enabled the product to gain international acceptance.

The Company purchased the Lava brand of heavy-duty hand cleaners from Block Drug Company in April 1999. The Lava brand is more than 100 years old and has exceptional awareness among American consumers. At the time of the acquisition, the brand was comprised of two sizes of bar soap and one size of liquid soap. In August 1999, the Company augmented the brand with the addition of the Lava Towel, a waterless hand cleaner and two new sizes of Liquid Lava. The Company's strategy in acquiring this brand was to first expand distribution in the U.S. and then begin to market Lava internationally. Prior to the Company's acquisition, the brand had been sold in a limited number of domestic trade channels, notably supermarkets and drug stores. The Company believes that the Lava brand, because of its heavy-duty characteristics, will have greater appeal to consumers who shop in other channels such as hardware, automotive and club stores. The Company intends to develop distribution in these channels where, with its WD-40 and 3-IN-ONE brands, it has considerable marketing experience.

WD-40 Company is subject to competition from many similar products which perform some or all of the functions of WD-40, 3-IN-ONE Oil and Lava. The Company is aware of many competing products, some of which sell for lower prices. Competition in international markets varies by country. The Company has no way of estimating the total size of the market or the proportion of the market held by the Company.

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. To support this trend, the Company has had to expand its use of customer- and market-specific promotions and allowances, which has negatively impacted and will continue to impact, the Company's ability to maintain existing profit margins.

Alternate sources of constituent chemicals are readily available and there are no current or anticipated shortages of any raw materials considered essential to the business. There are no environmental laws or regulations currently affecting capital expenditures. Recent focus on environmental regulations relating to VOC's (Volatile Organic Compounds) resulted in a change in the formulation of the WD-40 product whereby CO2 was chosen as the aerosol propellant in late 1996. As a result of this change, the cost of manufacturing WD-40 was increased and the Company increased its selling prices to offset the increased cost. In the event of future increases in product cost, the Company may not be in a position to

increase selling prices, and therefore an increase in costs could have an adverse effect on the Company's profitability.

The Company has no patents, but relies upon its established trademarks, brand names, and marketing efforts, including advertising and sales promotion, to compete effectively. The WD-40, 3-IN-ONE Oil and Lava trademarks are registered in the United States and in various foreign countries.

At August 31, 1999 the Company employed 177 people throughout the world: 106 by the United States parent corporation, 6 of which are based in the Malaysian sales office; 10 by the Company's Canadian subsidiary; 52 by the United Kingdom subsidiary, including 9 in Germany, 8 in France and 6 in Spain; 6 by the Australian subsidiary; and 3 by 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 5--Business Segment and Foreign Operations, of the Company's consolidated financial statements which have been included in ITEM 8, Financial Statements and Supplementary Data. 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 to hedge non functional currency cash balances. With the continuing economic uncertainties in Asia, Latin America, Eastern Europe and various states in the former Soviet Union, the Company is subject to increased credit risk for product sold to customers in these areas.

#### ITEM 2 - PROPERTIES

The Company owns and occupies an office and plant facility at 1061 Cudahy Place, San Diego, California 92110. The building consists of approximately 11,000 square feet of office space and 4,000 square feet of plant and storage area.

The Company owns and occupies an office and plant facility at Kiln Farm, Milton Keynes, England. The building consists of approximately 8,000 square feet of office space and 4,700 square feet of plant and storage area.

The Company leases approximately 2,000 square feet of office space in Etobicoke, Ontario, Canada and approximately 2,500 square feet of office space in Epping, New South Wales, Australia.

The Company leases approximately 1,300 square feet of office space for sales offices in each of the following cities: Atlanta, Georgia; Miami, Florida; Northbrook, Illinois; Thousand Oaks, California, and Treviso, Pennsylvania. The Company leases approximately 1,800 square feet of office space for a sales office in Kuala Lumpur, Malaysia. In addition, the Company leases space for the branch offices in Germany, France and Spain.

The Company believes that these properties should be sufficient to meet its needs for office and plant facilities for several 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. 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.

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	43	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.
Thomas J. Tranchina	51	Vice President Finance, Chief Financial Officer and Treasurer. Mr. Tranchina joined the Company in April, 1998. Prior to joining WD-40 Company, Mr. Tranchina held a variety of senior financial and operating positions, including eight years with Spectragraphics Corporation in San Diego, California.
Graham P. Milner	45	Senior Vice President, Sales and Marketing, The Americas. Mr. Milner joined the Company in 1992 as International Director, was appointed Vice President, Sales and Marketing, The Americas in March, 1997 and became Senior Vice President, the Americas, in April, 1998.
Michael L. Freeman	46	Vice President Operations, Chief Information Officer. Mr. Freeman joined the Company in 1990 as Director of Marketing and was named Director of Operations in 1994. He was promoted to Vice President Administration and Chief Information Officer in December, 1996.
Geoffrey J. Holdsworth	37	Managing Director, Asia Pacific, WD-40 Company (Australia) Pty. 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	41	Managing Director, Europe, 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. In addition, Mr. Ridge and Mr. Tranchina, have employment agreements for three year terms ending August 1, 2002.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded in the over-the-counter market (Nasdaq National Market System). As of August 31, 1999, the approximate number of holders of record of the Company's common stock was 2,106. The following table sets forth the range of high and low sales prices on the Nasdaq National Market of the Company's common stock for the periods indicated, as reported by Nasdaq.

	SELECTED STOCK INFORMATION					
	FISCAL 1999			FISCAL 1998		
	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
First Quarter	\$31 1/4	\$20 1/2	\$ .32	\$32 7/8	\$26 3/8	\$.32
Second Quarter	31 1/8	22 7/8	.32	30 1/4	26 3/16	.32
Third Quarter	29	24 3/4	.32	33	26 3/8	.32
Fourth Quarter	27 9/16	24 3/16	.32	27 7/8	20	.32

ITEM 6 - SELECTED FINANCIAL DATA

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth certain unaudited quarterly financial information for each of the two years in the period ending August 31, 1999:

QUARTER ENDED:	NET SALES	GROSS PROFIT	NET INCOME	DILUTED EARNINGS PER SHARE
November 30, 1997	\$ 33,597,000	\$ 19,279,000	\$ 5,225,000	\$.34
February 28, 1998	39,174,000	22,420,000	6,334,000	.40
May 31, 1998	31,831,000	17,596,000	4,061,000	.26
August 31, 1998	39,795,000	22,118,000	6,268,000	.40
	\$144,397,000	\$ 81,413,000	\$21,888,000	\$1.40
November 30, 1998	\$ 29,617,000	\$ 16,501,000	\$ 3,702,000	\$.24
February 28, 1999	41,709,000	23,126,000	6,791,000	.43
May 31, 1999	33,469,000	18,997,000	4,624,000	.30
August 31, 1999	41,553,000	23,166,000	6,948,000	.44
	\$146,348,000	\$ 81,790,000	\$22,065,000	\$1.41

The following data has been derived from the Company's audited financial statements. The balance sheets at August 31, 1999 and 1998 and the related statements of income, of cash flows and of shareholders' equity of the Company for the three years ended August 31, 1999 and notes thereto appear elsewhere herein. The data should be read in conjunction with such financial statements and other financial information appearing elsewhere herein.

	YEAR ENDED AUGUST 31,				
	1999	1998	1997	1996	1995
Net sales	\$ 146,348,000	\$ 144,397,000	\$ 137,893,000	\$ 130,912,000	\$ 116,776,000
Cost of product sold	64,558,000	62,984,000	59,286,000	57,925,000	50,229,000
Gross profit	81,790,000	81,413,000	78,607,000	72,987,000	66,547,000
Operating expenses	47,846,000	47,253,000	43,959,000	40,311,000	35,065,000
Interest and other income (expense), net	256,000	96,000	(1,288,000)	736,000	1,171,000
Income before income taxes	34,200,000	34,256,000	33,360,000	33,412,000	32,653,000
Provision for income taxes	12,135,000	12,368,000	11,997,000	12,115,000	12,200,000
Net income	\$ 22,065,000	\$ 21,888,000	\$ 21,363,000	\$ 21,297,000	\$ 20,453,000
Earnings per share (diluted)	\$ 1.41	\$ 1.40	\$ 1.37	\$ 1.38	\$ 1.33
Dividends per share	\$ 1.28	\$ 1.28	\$ 1.25	\$ 1.24	\$ 1.21
Total assets	\$ 91,957,000	\$ 70,945,000	\$ 65,418,000	\$ 61,658,000	\$ 59,579,000
Number of employees	177	167	165	149	148

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net sales were \$146.3 million in fiscal 1999, \$144.4 million in 1998, and \$137.9 million in 1997, representing increases over the prior year of 1.4% in fiscal 1999 and 4.7% in 1998. Sales for the Company's three trading blocs are broken down as follows:

	1999		1998		1997	
Americas	\$ 96.9	66%	\$ 98.6	68%	\$ 93.4	68%
Europe	37.3	26%	34.9	24%	32.2	23%
Asia/Pacific	12.1	8%	10.9	8%	12.3	9%
TOTAL	\$146.3	100%	\$144.4	100%	\$137.9	100%

In the Americas region, sales declined in 1999 by 1.7% from \$98.6 million in fiscal 1998 to \$96.9 million in fiscal 1999. During the last four months of fiscal 1999, Lava products accounted for \$3.5 million in sales within the U.S. Without the sales from the Lava brand, the decline in sales in

the Americas from 1998 to 1999 would have been 5.3%, coming entirely from the Company's lubricant product line. Fiscal 1998 sales had increased by 5.6% over 1997. In the region, 84% of the sales in 1999 came from the U.S., and 16% from Canada and Latin America. This distribution of sales is virtually unchanged from 1998 and 1997, although sales from Latin America have declined by 14% from 1998 due to weakening economic conditions throughout the area. As the U.S. and Canada are both mature and well-developed markets for the WD-40 brand, and with the general economic downturn in Latin America, near-term growth in the region should come from sales of the Lava brand of heavy-duty hand cleaner products which the Company acquired in April 1999.

Within the European region, sales grew by 6.9% to \$37.3 million in fiscal 1999 after growth of 8.4% from 1997 to 1998. Sales from the UK, which is a mature and well-established market for the Company's products accounted for 34% of the region's sales in 1999, down from 37% in 1998, and 40% in 1997. However, the principal European countries where the Company sells through a direct sales force - France, Germany and Spain - together accounted for 30% of the region's sales in 1999, up from 27% in 1998 and 24% in 1997. This shift in sales as a percentage of total sales within the European region reflects the growing acceptance of the Company's products in developing markets at the expense of more mature markets like the UK. For example, sales in France, Germany and Spain combined grew by 20% from 1998 to 1999 and 22% from 1997. In September 1999, the Company established a fourth direct market in Europe by opening an office in Italy. The Company expects the majority of its growth in the region to continue to come from the four direct European countries during the coming fiscal year.

In 1999, sales in the Asia/Pacific region rebounded from the effects of the Asian economic and political crisis which had severely impacted the economies of several key countries in the region. Overall, sales grew by 11% in the region from 1998 to 1999, after a decline of 11% from 1997 to 1998. Of the sales in the region, 21% were from Australia in 1999, down slightly from 22% in 1998. The Company expects continued growth in sales from this region in the coming year.

Gross profit was \$81.8 million, or 55.9% of sales in fiscal 1999, \$81.4 million or 56.4% in 1998, and \$78.6 million, or 57.0% in 1997. Changes in gross profit percentage from year to year are due primarily to changes in average selling prices arising from changes in both the mix of products sold and the mix of customers and trade channels in which the products are sold. The Company expects continued pressure on gross profit due to changes in its customer mix. Due to the consolidation of companies in the retailing industry, increasing portions of the Company's sales are made to fewer, but larger, customers with greater purchasing power, negatively impacting selling prices and margins.

A breakdown of gross profit by trading bloc by year follows:

	1999		1998		1997	
Americas	\$53.8	55.5%	\$55.8	56.6%	\$53.5	57.3%
Europe	22.0	58.9%	20.0	57.5%	18.6	57.7%
Asia/Pacific	6.0	49.7%	5.6	50.7%	6.5	53.1%
Total	\$81.8	55.9%	\$81.4	56.4%	\$78.6	57.0%

Selling, general, & administrative expenses were \$32.4 million in fiscal 1999, or 22.1% of sales compared to \$31.1 million or 21.5% of sales in 1998 and \$28.8 million, or 20.9% of sales in 1997.

The increase in SG&A expenses in 1999 over 1998 was due primarily to continued investment in employee related expenses, supply chain restructuring, and information systems required to support future growth. The increase in 1998 from 1997 was due primarily to three factors: increased selling costs to support the higher level of sales; recognition of more than \$500,000 in bad debts in the Americas region - from two South American distributors and from several retail accounts in the U.S.; and non-recurring employee-related expenses in the areas of severance, retirement, and relocation.

Advertising and sales promotion expense was \$14.0 million, or 9.5% of sales in 1999, \$14.8 million, or 10.3% of sales in 1998, and \$13.8 million, or 10.0% of sales in 1997. The change in advertising and sales promotion as a percentage of sales has not been significant over the three years, but the trend is for greater spending in this area to support the mix in the Company's customer base towards fewer but larger customers with greater purchasing power. Supporting these larger customers requires additional spending in customer-specific marketing and promotional programs.

Income from operations was \$33.9 million, or 23.2% of sales in 1999, \$34.2 million, or 23.7% of sales in fiscal 1998, and \$34.6 million, or 25.0% of sales in 1997. The decline in income from operations as a percentage of sales from 1997 to 1998 was due to the items discussed above, namely the lower gross profit percentage and higher SG&A expenses.

Other income (expense) was \$256,000 in fiscal 1999, \$96,000 in 1998, and a loss of \$1,288,000 in fiscal 1997. The components of other income (expense) are shown below:

	1999	1998	1997
	----	----	----
Interest income, net	\$38,000	\$551,000	\$54,000
Foreign currency losses	(67,000)	(41,000)	(1,274,000)
Gain (loss) on disposal of PP&E	30,000	(392,000)	(108,000)
Other income (expense)	255,000	(22,000)	40,000
	-----	-----	-----
TOTAL	\$256,000	\$96,000	(\$1,288,000)

The decrease in interest income (net) in fiscal 1999 compared to 1998 is due to the acquisition of the Lava brand. As a result of this acquisition, the Company used cash on hand which resulted in less cash available for investment plus the Company took on bank debt and incurred higher interest costs. The increase in 1998 over 1997 was due to the Company having greater cash balances on hand during the year which were available for investment. Foreign currency exchange produced a net loss of \$67,000 in fiscal 1999, a loss of \$41,000 in 1998, and a loss of \$1,274,000 in 1997. The decrease in exchange losses over the amount incurred in 1997 is due to a more favorable movement in exchange rates in countries where the Company operates in local currencies and to programs put in place, particularly in the UK, to better manage currency conversion. The loss on disposal of property, plant and equipment in 1998 was due largely to a decision to convert company owned vehicles in the U.S. to leased vehicles and was partially offset by lower depreciation expense. Other income in 1999 included \$45,000 in insurance dividends from a group life insurance policy, \$44,000 in insurance refunds from the Company's self-insurance benefits program, and \$112,000 in increased cash surrender value from key man life insurance policies.

The provision for income taxes was 35.5% of taxable income in fiscal 1999, and 36.0% in both 1998 and 1997.

Net income was \$22.1 million, or \$1.41 per share on a fully diluted basis in 1999, up from \$21.9 million, or \$1.40 per share in 1998 and \$21.4 million, or \$1.37 in 1997.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased from \$8.6 million at the end of fiscal 1998 to \$9.7 million at the end of fiscal 1999, while short-term investments declined from \$6.1 million to \$0.2 million over the same period. This overall decrease in cash resources is attributable to the use of cash to purchase the Lava brand of heavy-duty hand cleaners in April 1999, including the purchase of Lava inventory.

At August 31, 1999, working capital was \$31.8 million, a decrease of \$4.1 million from \$35.9 million at the end of 1998 and the current ratio of 2.6 at August 31, 1999 is down from 3.6 a year earlier. These decreases are largely due to the impact of the Lava acquisition, which resulted in inventory growth from \$1.7 million at the end of 1998 to \$6.1 million in 1999, and increases in both accounts payable of \$4.4 million and the current portion of long-term debt of \$1.6 million. The Company paid \$19.0 million for the Lava brand (which was approximately two times annual sales), plus approximately \$3.5 million for inventory. This purchase was financed with a \$16.0 million term loan from Union Bank of California with the balance of approximately \$6.5 million coming from cash on hand.

The Company has an unsecured \$20.0 million credit facility with Union Bank of California. The line is comprised of a \$16.0 million term loan which matures on May 1, 2006 and a \$4.0 million revolving line of credit facility which matures on April 30, 2001. At August 31, 1999, \$15.6 million remained due under the term loan, and no borrowings were outstanding under the revolving line of credit.

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. However, in an effort to augment the growth of the existing business by leveraging its core competencies, the Company has announced that it is seeking to make another acquisition of one or more branded products in related markets. If the Company is successful in doing so, existing cash flow may not be sufficient and additional outside financing may be required to support the acquisition.

The Company spent \$1.3 million for new capital assets during fiscal 1999 (excluding those assets acquired in the Lava transaction), primarily in the area of improvements to existing facilities, vehicle exchanges, and computer hardware and software. In fiscal 2000, the Company expects to spend approximately \$2.2 million for new capital assets, primarily for computer hardware and software in support of sales and operations, production molds for new products, and vehicle replacements in Europe.

#### YEAR 2000 ISSUE

In 1997 the Company established a project team, reporting to the Year 2000 Compliance Committee of the board of directors, to ensure an uninterrupted transition to the year 2000. The project encompasses software, hardware, electronic data interchange (EDI), supply chain systems, third party contract packagers, environmental and safety systems, facilities, utilities, supplier readiness

and other outside agencies. To date, the project team has assessed all internal systems and acquired the necessary computer hardware and software to assure compliance of its internal systems.

The Company has also contacted all key service suppliers, subcontractors, electronic commerce customers, and other customers to assess their compliance. Based on these contacts, management believes that all key outside parties will be compliant in a timely manner, however, there can be no assurance that there will not be a material adverse effect on the Company if third parties do not convert their systems in a timely manner and in a way that is compatible with the Company's systems.

Noncompliance with year 2000 requirements may cause a material adverse impact on the results of operations in several ways: (1) in the event that the Company's internal systems are not compliant, the Company may be unable to efficiently process customer orders, manage production, deliver products, and perform other related functions; (2) noncompliance by a service provider could result in the Company being deprived of a resource necessary for ongoing operations, such as electrical power, communications, and transportation; (3) noncompliance by one or more subcontractors could result in the Company being unable to manufacture a sufficient supply of finished goods to meet demand; and (4) noncompliance by one or more customers could result in the customers' inability to order, receive, and sell products from the Company.

The Company has developed contingency plans in the event that either internal systems or systems of key outside parties are not compliant. Costs related to the year 2000 issue are expensed as incurred except for certain hardware and software acquisition costs which may be considered capital expenditures. All costs related to the year 2000 issue have been funded through operating cash flows, and have not been material.

#### MARKET RISK

The Company is exposed to a variety of risks, including foreign currency fluctuations and changes in the market value of its investments. 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 managing its exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, the Company's U.K. subsidiary utilizes forward contracts to hedge its exposure on converting cash balances maintained in French francs, German deutschmarks, and Spanish pesetas into sterling. The Company regularly monitors its foreign exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. However, there can be no assurance the Company's foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on its results of operations and financial position.

The fair value of the Company's investments in marketable securities at August 31, 1999 was \$194,000. The Company's investment policy is to manage its portfolio of marketable securities in order to preserve principal and liquidity while maximizing the return.

#### FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. This annual 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 rate of sales growth in Latin America and direct European countries, the rate of sales growth in the Asia/Pacific region, the impact of customer mix on gross margins, the impact of one or more acquisitions, expectations for the Lava brand of heavy-duty hand cleaners; the amount of future capital expenditures, foreign exchange rates and fluctuations in those rates; the effects of, and changes in, worldwide economic conditions, particularly in Latin America and Asia; the impact of the year 2000 issue; and legal proceedings.

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 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 issuing or 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 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements at August 31, 1999 and 1998 and for each of the three years in the period ended August 31, 1999, and the Report of PricewaterhouseCoopers LLP, Independent Accountants, are included in this Report on pages i through xvi.

#### ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is set forth under the captions "Security Ownership of Directors and Executive Officers," "Nominees for Election as Directors," "Compensation, Committees and Meetings of the Board of Directors," "Compensation Committee Interlocks and Insider Participation" and "Section 16(a) Beneficial Ownership Reporting Compliance" on pages 4 through 7 of the Company's Proxy Statement filed with the Securities and Exchange Commission in connection with the 1999 Annual Meeting of Shareholders, December 14, 1999 (the "Proxy Statement"), which is incorporated by reference herein.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Proxy Statement under the headings "Executive Compensation," "Compensation Committee Report on Executive Compensation" and "Stock Performance Graphs" on pages 15 through 20.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the Proxy Statement under the headings "Principal Security Holders" on page 2 and "Security Ownership of Directors and Executive Officers" on page 4.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Related Party Transaction" on page 6.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

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	----
(a) Documents filed as part of this report	
(1) Report of Independent Accountants	i
Consolidated Balance Sheet at August 31, 1999 and 1998	ii
Consolidated Statement of Income for Fiscal 1999, 1998 and 1997	iii
Consolidated Statement of Shareholders' Equity for Fiscal 1999, 1998 and 1997	iv
Consolidated Statement of Cash Flows for Fiscal 1999, 1998 and 1997	v
Notes to Consolidated Financial Statements	vi
(2) Financial Statement Schedule for Fiscal 1999, 1998 and 1997 Schedule II - Consolidated Valuation and Qualifying Accounts and Reserves	xvii

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits

EXHIBIT NO. -----	DESCRIPTION -----
	Articles of Incorporation and By-Laws.
3(a)	The Restated Articles of Incorporation are incorporated by reference from the Registrant's Form 10-K Annual Report dated November 9, 1995, Exhibit 3(a) thereto.
3(b)	The Certificate of Amendment of Restated Articles of Incorporation is incorporated by reference from the Registrant's Form 10-K/A filed December 5, 1997, Exhibit 3(b) thereto.
3(c)	The Restated By-Laws are incorporated by reference from the Registrant's Form 10-Q filed April 14, 1998, Exhibit ( c ) thereto.
	Material contracts.
	Executive Compensation Plans and Arrangements (Exhibits 10(a) through 10(f) are management contracts and compensatory plans or arrangements required to be filed as exhibits pursuant to ITEM 14(c)).
10(a)	The WD-40 Company Supplemental Death Benefit Plan is incorporated by reference from the Form 10-K Annual Report dated November 9, 1995, Exhibit 10(b) thereto.
10(b)	The WD-40 Company Supplemental Retirement Benefit Plan is incorporated by reference from the Form 10-K Annual Report dated November 9, 1995, Exhibit 10(c) thereto.
10(c)	The Second Amendment and Restatement, WD-40 Company 1990 Incentive Stock Option Plan is incorporated by reference from the Form 10-K/A filed December 5, 1997, Exhibit 10(d) thereto.
10(d)	Employment Agreement between WD-40 Company and Garry O. Ridge dated August 2, 1999.
10(e)	Employment Agreement between WD-40 Company and Thomas J. Tranchina dated August 2, 1999.
10(f)	Asset Purchase Agreement between Block Drug Company, Inc. and WD-40 Company dated March 25, 1999.
21	Subsidiaries of the Registrant.
23	Consent of Independent Accountants.
27	Financial Data Schedule (electronic filing only).

(b) Reports on Form 8-K

(1) On July 13, 1999, the Registrant filed a Form 8-K/A, amending Form 8-K filed May 14, 1999, to report the Registrant's acquisition on April 30, 1999 of the Lava brand heavy-duty hand cleaner product line from Block Drug Company, Inc.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

WD-40 COMPANY  
Registrant

By /s/ Thomas J. Tranchina

-----  
Thomas J. Tranchina,  
Vice President Finance  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)  
Date 11/24/99  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ GARRY O. RIDGE

-----  
GARRY O. RIDGE  
Chief Executive Officer and Director  
(Principal Executive Officer)  
Date 11/19/99  
-----

/s/ JOHN S. BARRY

-----  
JOHN S. BARRY, Director  
Date 11/18/99  
-----

/s/ HARLAN F. HARMSSEN

-----  
HARLAN F. HARMSSEN, Director  
Date 11/21/99  
-----

/s/ MARIO L. CRIVELLO

-----  
MARIO L. CRIVELLO, Director  
Date 11/19/99  
-----

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/s/ MARGARET L. ROULETTE  
-----  
MARGARET L. ROULETTE, Director  
Date 11/19/99  
-----

/s/ C. FREDRICK SEHNERT  
-----  
C. FREDRICK SEHNERT, Director  
Date 11/19/99  
-----

/s/ DANIEL W. DERBES  
-----  
DANIEL W. DERBES, Director  
Date 11/19/99  
-----

/s/ JACK L. HECKEL  
-----  
JACK L. HECKEL, Director  
Date 11/19/99  
-----

/s/ EDWARD J. WALSH  
-----  
EDWARD J. WALSH, Director  
Date 11/19/99  
-----

-----  
GERALD C. SCHLEIF, Director  
Date  
-----

INDEX TO EXHIBITS

NO. ---	EXHIBIT -----	INCORPORATED BY REFERENCE PAGE ----
3(a)	Restated Articles of Incorporation	15
3(b)	Certificate of Amendment of Restated Articles of Incorporation	15
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23	Consent of Independent Accountants	
27	Financial Data Schedule (electronic filing only)	

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) and (2) on page 14 present fairly, in all material respects, the financial position of WD-40 Company and its subsidiaries at August 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1999, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14(a)(2) on page 14 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules 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.

PRICEWATERHOUSECOOPERS LLP

San Diego, California  
September 28, 1999

## WD-40 COMPANY

## CONSOLIDATED BALANCE SHEET

	AUGUST 31,	
	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,741,000	\$ 8,572,000
Short-term investments	194,000	6,093,000
Trade accounts receivable, less allowance for cash discounts and doubtful accounts of \$710,000 and \$585,000	28,646,000	27,037,000
Product held at contract packagers	1,868,000	2,038,000
Inventories	6,104,000	1,697,000
Other current assets	5,594,000	4,329,000
	-----	-----
Total current assets	52,147,000	49,766,000
Property, plant and equipment, net	3,861,000	3,593,000
Low income housing investments	3,312,000	3,378,000
Goodwill, net	30,792,000	12,468,000
Other assets	1,845,000	1,740,000
	-----	-----
	\$ 91,957,000	\$ 70,945,000
	-----	-----
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,262,000	\$ 6,906,000
Accrued payroll and related expenses	3,328,000	3,059,000
Income taxes payable	3,311,000	3,115,000
Current portion of long-term debt	2,461,000	830,000
	-----	-----
Total current liabilities	20,362,000	13,910,000
Long-term debt	14,065,000	916,000
Deferred employee benefits	1,356,000	1,121,000
	-----	-----
Total long-term liabilities	15,421,000	2,037,000
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common stock, no par value, 18,000,000 shares authorized - 15,603,146 and 15,633,308 shares issued and outstanding	8,931,000	9,680,000
Paid-in capital	509,000	321,000
Retained earnings	46,420,000	44,318,000
Accumulated other comprehensive income	314,000	679,000
	-----	-----
Total shareholders' equity	56,174,000	54,998,000
	-----	-----
	\$ 91,957,000	\$ 70,945,000
	-----	-----

See accompanying notes to consolidated financial statements.

## WD-40 COMPANY

## CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED AUGUST 31,		
	1999	1998	1997
Net sales	\$ 146,348,000	\$ 144,397,000	\$ 137,893,000
Cost of product sold	64,558,000	62,984,000	59,286,000
Gross profit	81,790,000	81,413,000	78,607,000
Operating expenses:			
Selling, general and administrative	32,362,000	31,098,000	28,770,000
Advertising and sales promotion	13,969,000	14,811,000	13,846,000
Amortization expense	1,515,000	1,344,000	1,343,000
	47,846,000	47,253,000	43,959,000
Income from operations	33,944,000	34,160,000	34,648,000
Interest income, net	38,000	551,000	54,000
Other income (expense), net	218,000	(455,000)	(1,342,000)
Income before income taxes	34,200,000	34,256,000	33,360,000
Provision for income taxes	12,135,000	12,368,000	11,997,000
Net income	\$ 22,065,000	\$ 21,888,000	\$ 21,363,000
Earnings per common share:			
Basic	\$ 1.41	\$ 1.40	\$ 1.38
Diluted	\$ 1.41	\$ 1.40	\$ 1.37
Common equivalent shares:			
Basic	15,599,501	15,604,160	15,512,140
Diluted	15,652,004	15,664,119	15,603,790

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS
	SHARES	AMOUNT		
BALANCE AT AUGUST 31, 1996	15,441,906	\$6,603,000	\$321,000	\$ 40,425,000
Issuance of common stock upon exercise of options	177,400	3,509,000		
Exchange of common stock upon exercise of options	(57,364)	(1,653,000)		
Cash dividends				(19,385,000)
Equity adjustment from foreign currency translation, net				
Net income				21,363,000
BALANCE AT AUGUST 31, 1997	15,561,942	8,459,000	321,000	42,403,000
Issuance of common stock upon exercise of options	119,856	2,640,000		
Exchange of common stock upon exercise of options	(48,490)	(1,419,000)		
Cash dividends				(19,973,000)
Equity adjustment from foreign currency translation, net				
Net income				21,888,000
BALANCE AT AUGUST 31, 1998	15,633,308	9,680,000	321,000	44,318,000
Issuance of common stock upon exercise of options	24,448	525,000		
Issuance of restricted common stock	750	20,000		
Exchange of common stock upon exercise of options	(1,740)	(48,000)		
Stock repurchased	(53,620)	(1,246,000)		
Tax benefit on exercise of stock options			188,000	
Cash dividends				(19,963,000)
Equity adjustment from foreign currency translation, net				
Net income				22,065,000
BALANCE AT AUGUST 31, 1999	15,603,146	\$ 8,931,000	\$ 509,000	\$46,420,000

	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL	CURRENT YEAR'S COMPREHENSIVE INCOME
	BALANCE AT AUGUST 31, 1996	\$ (178,000)	\$ 47,171,000
Issuance of common stock upon exercise of options		3,509,000	
Exchange of common stock upon exercise of options		(1,653,000)	
Cash dividends		(19,385,000)	
Equity adjustment from foreign currency translation, net	335,000	335,000	\$ 335,000
Net income		21,363,000	21,363,000
BALANCE AT AUGUST 31, 1997	157,000	51,340,000	\$21,698,000
Issuance of common stock upon exercise of options		2,640,000	
Exchange of common stock upon exercise of options		(1,419,000)	
Cash dividends		(19,973,000)	
Equity adjustment from foreign currency translation, net	522,000	522,000	\$ 522,000
Net income		21,888,000	21,888,000
BALANCE AT AUGUST 31, 1998	679,000	54,998,000	\$22,410,000
Issuance of common stock upon exercise of options		525,000	
Issuance of restricted common stock		20,000	
Exchange of common stock upon exercise of options		(48,000)	
Stock repurchased		(1,246,000)	
Tax benefit on exercise of stock options		188,000	
Cash dividends		(19,963,000)	
Equity adjustment from foreign currency translation, net	(365,000)	(365,000)	\$ (365,000)
Net income		22,065,000	22,065,000

BALANCE AT AUGUST 31, 1999

\$ 314,000	\$56,174,000	\$21,700,000
-----	-----	-----
-----	-----	-----

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED AUGUST 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 22,065,000	\$21,888,000	\$ 21,363,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,422,000	2,161,000	2,216,000
(Gain) loss on sale of equipment	(12,000)	392,000	108,000
Deferred income taxes	(58,000)	(305,000)	18,000
Tax benefit from exercise of stock options	188,000		
Non-cash compensation	20,000		
Changes in assets and liabilities:			
Trade accounts receivable	(1,863,000)	(4,406,000)	(998,000)
Product held at contract packagers	62,000	94,000	172,000
Inventories	(815,000)	1,668,000	624,000
Other assets	(956,000)	(365,000)	(331,000)
Accounts payable and accrued expenses	4,471,000	913,000	435,000
Income taxes payable	93,000	1,551,000	(383,000)
Long-term deferred employee benefits	232,000	85,000	85,000
Net cash provided by operating activities	25,849,000	23,676,000	23,309,000
Cash flows from investing activities:			
Decrease (increase) in short-term investments	5,899,000	(6,093,000)	104,000
Assets of business acquired	(23,283,000)		
Proceeds from sale of equipment	127,000	624,000	291,000
Capital expenditures	(1,308,000)	(1,271,000)	(1,478,000)
Net cash used in investing activities	(18,565,000)	(6,740,000)	(1,083,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock	477,000	1,221,000	1,856,000
Stock repurchase	(1,246,000)		
Proceeds from issuance of long-term debt	16,000,000		
Repayments of long-term debt	(1,229,000)	(669,000)	(706,000)
Dividends paid	(19,963,000)	(19,973,000)	(19,385,000)
Net cash used in financing activities	(5,961,000)	(19,421,000)	(18,235,000)
Effect of exchange rate changes on cash	(154,000)	189,000	129,000
Increase (decrease) in cash and cash equivalents	1,169,000	(2,296,000)	4,120,000
Cash and cash equivalents at beginning of year	8,572,000	10,868,000	6,748,000
Cash and cash equivalents at end of year	\$ 9,741,000	\$ 8,572,000	\$ 10,868,000
Non-cash investing and financing activities:			
Exchange of common stock upon exercise of options	\$ 48,000	\$ 1,419,000	\$ 1,653,000

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, WD-40 Manufacturing Company, 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.

FINANCIAL STATEMENT PRESENTATION

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

Short-term investments consist principally of variable rate demand notes issued by state, county and municipal governments. While these notes have contractual maturities of up to 30 years, they also provide liquidity at regularly scheduled auction dates, which typically occur every one to five weeks. Such investments are considered short-term due to the auction dates and the Company's intent is to sell the securities from time to time during the year. The Company has classified its investment portfolio as available-for-sale. Additionally, the cost of securities sold is based upon the specific identification method.

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.

These contract packagers will continue to package products to rigid specifications, and upon order from WD-40 Company, ship ready-to-sell inventory to the Company's customers. The contract packagers, rather than the Company, are responsible for inventory control. The Company does not record a sale on the inventory until such inventory is shipped to customers.

INVENTORIES

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

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 ten to thirty years for buildings and improvements, three to fifteen years for machinery and equipment, five years for vehicles and three to ten years for furniture and fixtures.

GOODWILL

Goodwill represents the excess of the purchase cost over the fair value of identifiable assets at the date of acquisition of the 3-IN-ONE brand and the Lava brand (Note 2) and is amortized on a straight-line basis over their estimated useful lives of 15 years. The Company evaluates the carrying value of goodwill at each balance sheet date as well as the amortization period to determine whether adjustments are required. No such adjustments have been recorded by the Company.

LONG-LIVED ASSETS

The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified by the Company.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At August 31, 1999, the Company's other financial instruments, include cash equivalents, trade receivables, accounts payable, forward foreign currency exchange contracts and long-term debt. The carrying amounts of these instruments approximate fair value because of their short maturities and variable interest rates. Management believes that the estimated fair value of the Company's low income housing investment and related debt approximated their carrying values at August 31, 1999.

DIVERSIFICATION OF CREDIT RISK

The Company's policy is to place its cash, cash equivalents and investments in high credit quality financial institutions, in investment grade commercial paper and in securities of various government agencies. Additionally, the Company limits its credit exposure from trade receivables by performing on-going credit evaluations of customers.

REVENUE RECOGNITION

Revenues are recognized upon the shipment of product to customers.

ADVERTISING COSTS

The Company expenses advertising costs when incurred.

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. Deferred income tax expense is the change during the year in the deferred income tax liability or asset.

COMPREHENSIVE INCOME

In 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. The components of comprehensive income for the Company include net income and foreign currency translation adjustments. The foreign currency translation adjustments are reported net of the effect of income tax expense (benefit) of \$(201,000), \$295,000 and \$188,000 for the years ended August 31, 1999, 1998 and 1997, respectively.

EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income for the period by the weighted-average number of common shares outstanding during the period increased by dilutive potential common shares ("dilutive securities") that were outstanding during the period. Dilutive securities are comprised of options granted under the Company's stock option plan (Note 6).

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

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 accumulated other comprehensive income in 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 as other income (expense). Aggregate foreign currency transaction losses were \$67,000, \$41,000, and \$1,274,000 for the years ended August 31, 1999, 1998 and 1997, respectively.

During 1999, the Company entered into forward foreign currency exchange rate contracts to hedge cash balances denominated in various currencies held by one of its wholly-owned foreign subsidiaries, WD-40 Company Ltd. (U.K.). Realized and unrealized gains and losses on these contracts are recorded in income. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to significant risk from exchange rate movements, because gains and losses on these contracts offset losses and gains on the balances being hedged. The Company does not purchase contracts which exceed the amount of the balances being hedged. At August 31, 1999, the Company had approximately \$362,000 of foreign exchange contracts outstanding, which mature in October 1999. The amount of net realized and unrealized gains on the foreign exchange contracts was not material during the year ended August 31, 1999.

STOCK-BASED COMPENSATION

The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. The Company is presenting pro forma disclosures of net income and earnings per share, as if the fair value method had been applied in measuring compensation expenses (Note 8).

SEGMENT INFORMATION

In 1999, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." This statement requires disclosure of certain information about the Company's operating segments, products, geographical areas in which it operates and its major customers (Note 5).

NEW PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133." SFAS No. 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. The Company will be required to adopt this standard during the year ending August 31, 2001. The Company has not determined what impact, if any, the adoption of SFAS No. 133 will have on its consolidated financial position or results of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## RECAPITALIZATION

In July 1997, the Company filed a Certificate of Amendment of Restated Articles of Incorporation to effect a 2 for 1 stock split of all outstanding shares of common stock and stock options. All 1997 share and per share data in the accompanying financial statements have been adjusted retroactively to give effect to the stock split. The Certificate of Amendment increased the authorized stock of the Company such that the Company is authorized to issue 18,000,000 shares of no par value common stock.

## NOTE 2 - ACQUISITION

On April 30, 1999, the Company acquired all of the worldwide trademarks and other intangible assets of the Lava brand of heavy-duty hand cleaners from Block Drug Company, Inc. The Company paid cash in the amount of \$19,000,000 for the Lava brand, including intangible assets. In addition, the Company incurred \$830,000 in transaction costs related to the acquisition and paid \$3,453,000 for inventory. To finance the transactions, the Company borrowed \$16,000,000 from a commercial bank and used cash from the liquidation of short-term investments for the balance.

The following summary presents the results of operations for the years ended August 31, 1999, 1998 and 1997 on an unaudited pro forma basis, as if the acquisition completed during the year ended August 31, 1999 had occurred September 1, 1996. The pro forma operating results are for illustrative purposes only and do not purport to be indicative of the actual results which would have occurred had the transactions been consummated as of those earlier dates, nor are they indicative of results of operations which may occur in the future.

	(UNAUDITED) YEAR ENDED AUGUST 31,		
	1999	1998	1997
Net sales	\$ 152,700,000	\$ 154,160,000	\$ 146,988,000
Net income	\$ 20,333,000	\$ 18,562,000	\$ 19,495,000
Basic earnings per share	\$ 1.30	\$ 1.19	\$ 1.26
Diluted earnings per share	\$ 1.30	\$ 1.19	\$ 1.25

## NOTE 3 - SHORT-TERM INVESTMENTS

The cost of the Company's investment portfolio by type of security is as follows:

	AUGUST 31,	
	1999	1998
TYPE OF SECURITY:		
State, county and municipal securities	\$ -	\$ 5,965,000
Other securities	194,000	128,000
	\$ 194,000	\$ 6,093,000

The interest income provided by the state, county and municipal securities is exempt from federal income taxes. The realized gain on disposal of securities in 1999, as well as the unrealized gain on investments as of August 31, 1999, were not material.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4 - SELECTED FINANCIAL STATEMENT INFORMATION

	AUGUST 31,	
	1999	1998
INVENTORIES:		
Raw materials	\$ 520,000	\$ 886,000
Finished goods	5,584,000	811,000
	<u>\$ 6,104,000</u>	<u>\$ 1,697,000</u>
PROPERTY, PLANT AND EQUIPMENT, NET:		
Land	\$ 254,000	\$ 254,000
Buildings and improvements	2,209,000	2,161,000
Furniture and fixtures	3,570,000	2,995,000
Machinery, equipment and vehicles	1,711,000	1,959,000
	<u>7,744,000</u>	<u>7,369,000</u>
Accumulated depreciation	<u>(3,883,000)</u>	<u>(3,776,000)</u>
	<u>\$ 3,861,000</u>	<u>\$ 3,593,000</u>

Depreciation expense for the years ended August 31, 1999, 1998 and 1997 was \$907,000, \$817,000 and \$873,000, respectively.

	AUGUST 31,	
	1999	1998
GOODWILL, NET:		
Goodwill	\$ 34,991,000	\$ 15,234,000
Accumulated amortization	(4,199,000)	(2,766,000)
	<u>\$ 30,792,000</u>	<u>\$ 12,468,000</u>

## NOTE 5 - BUSINESS SEGMENTS AND FOREIGN OPERATIONS

In 1999, the Company adopted FAS 131. The prior year's segment information has been conformed to present the Company's three reportable segments in accordance with the new standard: (1) The Americas, (2) Europe and (3) Asia-Pacific.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" (Note 1). Segment data does not include intersegment revenues, or charges allocating corporate-headquarters costs to each of its operating segments. The Company evaluates the performance of its segments and allocates resources to them based on sales and operating income. The Company is organized based on geographic location.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents information about reported segments for the years ended August 31:

	THE AMERICAS	EUROPE	ASIA- PACIFIC	TOTAL
1999				
Net sales	\$ 96,954,000	\$ 37,293,000	\$ 12,101,000	\$ 146,348,000
Operating income	20,848,000	9,482,000	3,614,000	33,944,000
Total assets	74,744,000	16,409,000	804,000	91,957,000
1998				
Net sales	98,566,000	34,885,000	10,946,000	144,397,000
Operating income	22,906,000	8,084,000	3,170,000	34,160,000
Total assets	55,580,000	14,666,000	699,000	70,945,000
1997				
Net sales	93,339,000	32,245,000	12,309,000	137,893,000
Operating income	23,833,000	7,078,000	3,737,000	34,648,000
Total assets	48,335,000	16,526,000	557,000	65,418,000

	SALES		
	1999	1998	1997
Product Line Information:			
Lubricants	\$ 142,836,000	\$ 144,397,000	\$ 137,893,000
Hand cleaning products	3,512,000	-	-
	<u>\$ 146,348,000</u>	<u>\$ 144,397,000</u>	<u>\$ 137,893,000</u>

	SALES			LONG-LIVED ASSETS		
	1999	1998	1997	1999	1998	1997
Geographical Information:						
United States	\$81,796,000	\$83,139,000	\$79,134,000	\$36,203,000	\$17,800,000	\$19,549,000
International	64,552,000	61,258,000	58,759,000	3,607,000	3,379,000	3,513,000
	<u>\$146,348,000</u>	<u>\$144,397,000</u>	<u>\$137,893,000</u>	<u>\$39,810,000</u>	<u>\$21,179,000</u>	<u>\$23,062,000</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6 - EARNINGS PER COMMON SHARE

The schedule below summarizes the elements included in the calculation of basic and diluted earnings per common share for the years ended August 31, 1999, 1998 and 1997.

	YEAR ENDED AUGUST 31,								
	1999			1998			1997		
	NET INCOME	SHARES	PER SHARE AMOUNT	NET INCOME	SHARES	PER SHARE AMOUNT	NET INCOME	SHARES	PER SHARE AMOUNT
Net income	\$22,065,000			\$21,888,000			\$21,363,000		
Basic EPS		15,599,501	\$1.41		15,604,160	\$1.40		15,512,140	\$1.38
Dilutive securities		52,503			59,959			91,650	
Diluted EPS		15,652,004	\$1.41		15,664,119	\$1.40		15,603,790	\$1.37

For the years ended August 31, 1999, 1998 and 1997, 134,114, 137,400 and 0 options outstanding were excluded from the calculation of diluted EPS, as their effect would have been antidilutive.

## NOTE 7 - INCOME TAXES

The provision for income taxes includes the following:

	YEAR ENDED AUGUST 31,		
	1999	1998	1997
Current tax provision:			
United States	\$ 8,188,000	\$ 7,911,000	\$ 8,359,000
State	1,510,000	1,964,000	1,687,000
Foreign	2,650,000	2,798,000	1,933,000
Total current	12,348,000	12,673,000	11,979,000
Deferred tax provision (benefit):			
United States	(156,000)	(343,000)	8,000
Foreign	(57,000)	38,000	10,000
Total deferred	(213,000)	(305,000)	18,000
	\$ 12,135,000	\$ 12,368,000	\$ 11,997,000

Deferred tax assets included in other current assets are comprised of the following:

	AUGUST 31,	
	1999	1998
Accrued employee benefits	\$ 422,000	\$ 454,000
State income taxes	221,000	260,000
Reserves and allowances	604,000	320,000

\$ 1,247,000  
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\$ 1,034,000  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	AUGUST 31,	
	1999	1998
Depreciation	\$ (161,000)	\$ (226,000)
Deferred compensation	557,000	461,000
Investment in low income housing	(168,000)	-
	-----	-----
	\$ 228,000	\$ 235,000
	-----	-----

Following is a reconciliation of the amount computed by applying the statutory federal income tax rate to income before income taxes to the provision for income taxes:

	YEAR ENDED AUGUST 31,		
	1999	1998	1997
Amount computed at U.S. statutory federal tax rate	\$ 11,970,000	\$ 11,990,000	\$ 11,676,000
State income taxes, net of federal benefit	1,445,000	1,257,000	1,409,000
Affordable housing credits	(738,000)	(717,000)	(654,000)
Other	(542,000)	(162,000)	(434,000)
	-----	-----	-----
	\$ 12,135,000	\$ 12,368,000	\$ 11,997,000
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Income taxes paid during the years ended August 31, 1999, 1998 and 1997 amounted to \$10,563,000, \$11,638,000, and \$11,850,000, respectively.

## NOTE 8 - STOCK OPTIONS

The Company has a stock option plan whereby the Board of Directors may grant officers and key employees options to purchase up to 1,480,000 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, 1999, options for 316,016 shares were exercisable, and options for 595,691 shares were available for future grants.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the changes in options outstanding under the Company's stock option plan during the three years ended August 31, 1999 is as follows:

	NUMBER OF SHARES	OPTION PRICE PER SHARE
OUTSTANDING AT AUGUST 31, 1996	441,732	\$15.34 - \$23.75
Options granted	126,800	\$23.00
Options exercised	(177,400)	\$15.34 - \$23.75
Options canceled	(16,082)	\$21.19 - \$23.75
OUTSTANDING AT AUGUST 31, 1997	375,050	\$15.44 - \$23.75
Options granted	147,800	\$31.75
Options exercised	(119,856)	\$16.13 - \$23.75
Options canceled	(26,157)	\$17.13 - \$31.75
OUTSTANDING AT AUGUST 31, 1998	376,837	\$15.44 - \$31.75
Options granted	165,999	\$23.06
Options exercised	(24,448)	\$15.94 - \$23.75
Options canceled	(4,792)	\$23.06 - \$31.75
OUTSTANDING AT AUGUST 31, 1999	513,596	\$15.44 - \$31.75

The following table summarizes information concerning outstanding and exercisable options as of August 31, 1999:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AS OF AUGUST 31, 1999	WEIGHTED- AVERAGE REMAINING LIFE (YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF AUGUST 31, 1999	WEIGHTED- AVERAGE EXERCISE PRICE
\$15.44 - \$21.25	103,248	4.87	\$20.47	103,248	\$20.47
\$23.00 - \$31.75	410,348	8.02	\$25.95	212,768	\$27.71
	513,596	7.38	\$24.85	316,016	\$25.35

If the Company had elected to recognize compensation expense for its stock option plan using the fair value method, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated below.

	YEAR ENDED AUGUST 31,		
	1999	1998	1997
NET INCOME			
As reported	\$ 22,065,000	\$ 21,888,000	\$ 21,363,000
Pro forma	21,651,000	21,561,000	21,055,000
DILUTED EARNINGS PER SHARE			
As reported	\$1.41	\$1.40	\$1.37
Pro forma	\$1.38	\$1.38	\$1.36

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for the years ended August 31, 1999, 1998 and 1997: expected volatility ranging from 17% to 29%, risk-free interest rates ranging from 4.62% to 6.21%, an average expected life of three years and a dividend yield of 5.6%. The weighted average fair value of stock options granted during the years ended August 31, 1999, 1998 and 1997 was \$3.65, \$3.23, and \$2.58 per share, respectively.

## NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company has a combined WD-40 Company Money Purchase Pension Plan and Trust and WD-40 Company Profit Sharing Plan (the "Plans") for the benefit of its regular full-time U.S. employees who meet certain criteria. The Plans provide for annual contributions into a trust to the extent of 10% of covered employee compensation for the WD-40 Company Money Purchase Pension Plan and Trust and as approved by the Board of Directors for the WD-40 Company Profit Sharing Plan and Trust, 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. Contributions charged to income under the Plans in the years ended August 31, 1999, 1998 and 1997 totaled \$1,211,000, \$1,376,000, and \$1,094,000, respectively.

The Company has a WD-40 Company 401(k) Plan and Trust whereby regular full-time employees who have completed certain minimum service requirements 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 during the years ended August 31, 1999, 1998 and 1997 was approximately \$161,000, \$123,000, and \$129,000, respectively.

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 \$5,048,000 of which \$1,332,000, representing the present value of these obligations to employees for service through August 31, 1999, has been accrued.

The Company has life insurance policies on certain of its key executives. As of August 31, 1999, the aggregate cash surrender value of these policies is \$1,617,000, which is included in other assets. Keyman life insurance premiums paid by the Company during the years ended August 31, 1999, 1998 and 1997 were \$35,000, \$30,000, and \$56,000, respectively.

In September 1998, the Board of Directors adopted a Non-Employee Director Restricted Stock Plan to provide for the issuance of 250 shares of restricted common stock of the Company to each non-employee member of the Board of Directors in lieu of \$5,000 of cash compensation. The issuance of shares in lieu of cash compensation is mandatory for any director who does not hold shares of the Company having a fair market value of at least \$50,000 and optional for all other directors. The shares do not become vested for resale for a period of five years, except in the event of death or retirement from the Board of Directors.

## NOTE 10 - LOW INCOME HOUSING INVESTMENT AND RELATED DEBT

On August 31, 1993 and December 13, 1994, the Company purchased partnership units in an affordable 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 is accounted for at historical cost, amortized on a straight line basis over 15 years with an estimated salvage value of \$2,750,000. Amortization expense during the years ended August 31, 1999, 1998 and 1997 were \$66,000, \$333,000 and \$333,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company entered into seven-year promissory notes to fund its investments in the affordable housing tax credit fund. Each note is secured by the corresponding investment and bears interest at 7.0%. Combined interest and principal payments on each note are \$559,000 and \$370,000, respectively, due annually each January through 2000. Interest paid during the years ended August 31, 1999, 1998 and 1997 was \$126,000, \$173,000, and \$223,000, respectively.

NOTE 11 - DEBT

In March 1999, the Company obtained a revolving loan with a commercial bank which expires on April 30, 2001. Under the terms of the revolving loan, the Company may borrow up to \$4,000,000 at the bank's reference rate (8.25% at August 31, 1999) or LIBOR plus 1.25%. The agreement requires the Company to maintain minimum income levels and meet certain other restrictive covenants. There were no borrowings outstanding on this line at August 31, 1999.

In March 1999, the Company obtained a term loan with a commercial bank which expires on May 1, 2006. The Company has borrowed \$16,000,000 under the term loan at either the bank's reference rate (8.25% at August 31, 1999) or LIBOR plus 1.50%. During the year ended August 31, 1999, the Company paid \$278,000 of interest incurred under the term loan. The term loan is payable in monthly principal installments of \$133,000, plus interest. Principal payments in the amount of \$1,600,000 will be due under the term loan for each of the years ending August 31, 2000 through 2004 and principal in the amount of \$7,600,000 will be due thereafter. The agreement requires the Company to maintain minimum income levels and meet certain other restrictive covenants.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company is party to various claims, legal actions and complaints, including product liability litigation, 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, 1999 which provide for the following future minimum lease payments: 2000, \$479,000; 2001, \$319,000; 2002, \$67,000; 2003, \$7,000. Rent expense for the years ended August 31, 1999, 1998 and 1997 was \$564,000, \$267,000, and \$257,000, respectively.

NOTE 13 - SUBSEQUENT EVENTS

On September 28, 1999, the Company declared a cash dividend of \$.32 per share payable on November 9, 1999 to shareholders of record on October 18, 1999.

From September 15, 1999 through September 23, 1999, the Company repurchased 43,279 shares of common stock on the open market for \$1,019,000. These repurchases were made pursuant to a plan authorized by the Board of Directors for management to acquire up to five percent of the outstanding shares from time to time in the open market subject to available cash flow and market conditions.

SCHEDULE II

WD-40 COMPANY

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS*	BALANCE AT END OF PERIOD
Reserve for bad debts and sales discounts:				
Year ended August 31, 1997	\$ 420,000	\$ 1,104,000	\$ 1,029,000	\$ 495,000
Year ended August 31, 1998	\$ 495,000	\$ 1,647,000	\$ 1,557,000	\$ 585,000
Year ended August 31, 1999	\$ 585,000	\$ 1,422,000	\$ 1,169,000	\$ 838,000

\* Write-off of doubtful accounts and sales discounts taken.

EMPLOYMENT AGREEMENT

THIS AGREEMENT ("Agreement") is made on this 2nd day of August, 1999, between WD-40 COMPANY (hereinafter the "Company") and GARRY O. RIDGE (hereinafter the "Executive").

RECITALS:

Whereas Executive has been employed by Company for a period of years. Company and Employee feel that it would be appropriate to memorialize the terms of the employment relationship.

NOW THEREFORE, the parties agree as follows:

A. TERM OF EMPLOYMENT.

1. TERM: Company hereby employs Executive and Executive hereby accepts employment with Company for the period of three years (the "Term") commencing with the Effective Date, subject however, to prior termination of this Agreement as hereinafter provided. Where used herein, "Term" shall refer to the entire period of employment of Executive by Company, whether for the period provided above, or whether terminated earlier as hereinafter provided. Unless otherwise provided for by agreement of the parties, or action by the Board of Directors of the Company, this Agreement shall automatically renew for successive three year terms.

B. DUTIES OF EXECUTIVE.

1. DUTIES: Executive shall perform the duties of President and Chief Executive Officer subject to the powers by law vested in the Board of Directors and the Company's shareholders. During the Term, Executive shall perform exclusively the services

herein contemplated to be performed by Executive faithfully, diligently and to the best of Executive's ability, in compliance with all applicable laws and Company's Articles of Incorporation and By-laws.

2. CONFLICTS OF INTEREST: Except as permitted by the prior written consent of the Board of Directors of Company, Executive shall devote Executive's entire productive time, ability and attention to the business of Company during the Term, and Executive shall not directly or indirectly render any services of business, commercial or professional nature to any other person, firm or corporation, whether for compensation or otherwise, which are in conflict with Company's interests.

C. COMPENSATION.

1. SALARY: Commencing at the Effective Date for Executive's services hereunder, Company shall pay or cause to be paid as annual salary to Executive the amount of Two Hundred Seventy-Five Thousand Dollars (\$275,000.00) for the Term, to be prorated in the event this Agreement is in effect for only a portion of the year. Said salary shall be payable in equal installments in conformity with Company's normal payroll period. Executive's salary shall be reviewed by the Board of Directors from time to time at its discretion, but at least annually, and Executive shall receive such salary increase as the Board of Directors, in its sole discretion, shall determine, evaluating such factors as job performance and profitability of the Company and the general rate of inflation.

2. BONUS: Executive and Company mutually agree that whatever annual incentive bonus Executive may receive from Company will be paid in the sole discretion of Company's Board of Directors based upon the Company's annually established bonus formula.

The Company agrees to continue with a future bonus program for the benefit of Executive which is substantially consistent with the bonus formula in place for the initial year hereof.

D. EXECUTIVE BENEFITS:

1. VACATION: Executive shall be entitled to twenty days vacation. All vacation which is not taken during the year periods of the Term shall be accrued and carried forward in line with general vacation policy guidelines of the Company.

2. HEALTH INSURANCE BENEFITS: Executive shall be entitled to participate in medical, dental and other employee benefits pursuant to the established benefit plans of the Company.

3. OFFICE: Executive shall be furnished with an enclosed office for the performance of Executive's duties for Company.

4. LIFE INSURANCE: The Company shall also provide for the Executive, at Company's expense, a \$200,000.00 group life insurance policy, or its equivalent. Company will also pay for the cost of an annual physical not covered by Insurance Program.

5. RETIREMENT PROGRAM: Executive shall be entitled to all benefits pursuant to the Long Term Retirement Program, if he is a party to such program.

6. STOCK OPTION PROGRAM: Executive shall participate in and be entitled to benefits of the Company Stock Option Program.

E. BUSINESS EXPENSES AND REIMBURSEMENT.

1. BUSINESS EXPENSES: Executive shall be entitled to reimbursement by Company for any ordinary and necessary business expenses incurred by Executive in the performance of Executive's duties and in acting for Company during the Term including, but not limited to, entertainment, meals, travel expenses, conventions, meetings, seminars, and clubs in

accordance with company policy in effect at the time. Review of such expenses shall be conducted in accordance with existing Company policy.

2. AUTOMOBILE: During the Term hereunder, Company shall provide Executive with an automobile allowance in the amount of Eight Hundred Fifty Dollars (\$850.00) per month as reimbursement for Executive's business use of his personal automobile, or a Company vehicle in line with the then existing vehicle policy. In the event that the allowance is paid in lieu of providing an automobile, the dollar amount of the allowance shall be subject to adjustment to reflect any inflationary factors. Should Executive receive an automobile allowance rather than use of a Company vehicle, Company shall have no other responsibility or obligation with respect to the automobile expenses of Executive. Executive shall procure and maintain insurance coverage on said automobile. Company shall furnish Executive, at no cost to Executive, with parking at Company facilities.

F. TERMINATION.

1. TERMINATION: Company may terminate this Agreement at any time, without further obligation or liability to Executive, by action of the Board of Directors in the event that:

(a) Executive commits an act or acts of malfeasance or gross malfeasance in his duties; or

(b) Executive engages in illegal activity which materially adversely affects Company's reputation in the community or which evidences the lack of Executive's fitness or ability to perform Executive's duties as determined by the Board of Directors in good faith.

Such termination shall not prejudice any remedy which Company may have at law, in equity, or under this Agreement. Termination pursuant to this section shall become effective immediately after notice of termination.

2. EFFECT OF TERMINATION: In the event of the termination of this Agreement prior to the completion of the Term for any of the reasons specified in Section F.1 (a) or (b), Executive shall be entitled to the salary earned by Executive prior to the date of termination as provided for in this Agreement, computed pro rata up to and including that date, and accrued but unused vacation time, but Executive shall be entitled to no further compensation for services rendered after the date of termination, unless specifically agreed in writing between Company and Executive.

G. GENERAL PROVISIONS:

1. MERGER OR CORPORATE DISSOLUTION: In the event of a merger where Company is not the surviving corporation, in the event of a consolidation, or in the event of a transfer of all or substantially all of the assets of Company, Company shall assign this Agreement and the benefits thereof to any person, association or corporation acquiring all or substantially all of its assets as an entity or to any corporation into which it shall be merged or consolidated. Company shall be unconditionally released from all of its duties and obligations hereunder upon such assignment if the assignee shall expressly and unconditionally assume and agree to perform all of the duties and obligations of Company hereunder, or upon Executive's refusal to consent to such assignment. Furthermore, upon such transfer, the Term of this agreement shall be extended for a period of three full years. Such extension of the Term of this agreement shall be effective on the date of the transfer or merger.

2. CHANGE OF CONTROL: In the event that more than 15% of the Company's outstanding capital stock is acquired in connection with a tender offer for shares of Company or other change in ownership resulting in a transfer of 15% or more of the Company's outstanding capital stock to a single entity, group or person, such ownership transfer shall be deemed a Change of Control.:

Should Executive be terminated without cause following a Change of Control, but during the Term of this agreement, then Executive shall be paid an amount equal to three times his average gross salary, including bonuses, for the five years immediately preceding such termination, less the sum of \$100.00 (or such lesser period during which Executive provided services to Company). In no event shall such payments exceed the limitations set forth in Internal Revenue Code Section 280G(d) (2).

3. EFFECTIVE DATE: The effective date of this Agreement shall be August 2nd, 1999.

4. TRADE SECRETS: During the Term, Executive will have access to and become acquainted with what Executive and Company acknowledge as trade secrets, to wit, knowledge or data concerning Company, including knowledge of their financial condition, their financial needs, as well as their methods of doing business. Executive shall not disclose any of the aforesaid trade secrets, directly or indirectly, or use them in any way, either during the Term or thereafter.

5. RETURN OF DOCUMENTS AND PROPERTY: Executive expressly agrees that all manuals, documents, files, reports, studies, instruments, equipment, Company property or other materials used and/or developed by Executive during the Term are solely the property of Company, and that Executive has no right, title or interest therein. Upon termination of this

Agreement, Executive or Executive's representative shall promptly deliver possession of all of said property to Company in good condition.

6. NOTICES: Any notice, request, demand or other communication required or permitted hereunder shall be deemed to be properly given when personally served in writing, when deposited in the United States mail, postage prepaid, or when communicated to a public telegraph company for transmittal, addressed to the Company at its head office location or the Executive at their last known address. Either party may change its address by written notice in accordance with this section.

7. BENEFIT OF AGREEMENT: This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, administrators, successors and assigns.

8. APPLICABLE LAW: Except to the extent governed by the laws of the United States, this Agreement is to be governed by and construed under the laws of the State of California.

9. CAPTIONS AND PARAGRAPH HEADINGS: Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

10. INVALID PROVISIONS: Should any provision of this Agreement for any reason be declared invalid, void or unenforceable by a court of competent jurisdiction, the validity and binding effect of any remaining portion shall not be affected, and the remaining portions of this Agreement shall remain in full force and effect as if this Agreement had been executed with said provision eliminated.

11. ENTIRE AGREEMENT: This Agreement contains the entire agreement of the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by Company. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement, but only by any agreement in writing signed by Company and Executive.

12. ATTORNEYS' FEES: If any action, including arbitration, is brought to enforce this Agreement or to determine the relative rights and obligations of either of its parties and a ruling is obtained in favor of either party, regardless of which party institutes the actions, the prevailing party will be entitled to reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

"COMPANY"  
WD-40 COMPANY

"EXECUTIVE"

By /s/ Garry O. Ridge  
-----  
GARRY O. RIDGE, President

/s/ Garry O. Ridge  
-----  
GARRY O. RIDGE

By /s/ John B. Sidell  
-----  
JOHN B. SIDELL,  
Assistant Secretary

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EMPLOYMENT AGREEMENT

THIS AGREEMENT ("Agreement") is made on this 2nd day of August, 1999, between WD-40 COMPANY (hereinafter the "Company") and THOMAS J. TRANCHINA (hereinafter the "Executive").

RECITALS:

Whereas Executive has been employed by Company for a period of approximately one year, Company and Employee feel that it would be appropriate to memorialize the terms of the employment relationship.

NOW THEREFORE, the parties agree as follows:

A. TERM OF EMPLOYMENT.

1. TERM: Company hereby employs Executive and Executive hereby accepts employment with Company for the period of three years (the "Term") commencing with the Effective Date, subject however, to prior termination of this Agreement as hereinafter provided. Where used herein, "Term" shall refer to the entire period of employment of Executive by Company, whether for the period provided above, or whether terminated earlier as hereinafter provided. Unless otherwise provided for by agreement of the parties, or action by the Board of Directors of the Company, this Agreement shall automatically renew for successive three year terms.

B. DUTIES OF EXECUTIVE.

1. DUTIES: Executive shall perform the duties of Chief Financial Officer subject to the powers by law vested in the Board of Directors and the Company's shareholders. During the Term, Executive shall perform exclusively the services herein contemplated to be

performed by Executive faithfully, diligently and to the best of Executive's ability, in compliance with all applicable laws and Company's Articles of Incorporation and By-laws.

2. CONFLICTS OF INTEREST: Except as permitted by the prior written consent of the President of Company, Executive shall devote Executive's entire productive time, ability and attention to the business of Company during the Term, and Executive shall not directly or indirectly render any services of business, commercial or professional nature to any other person, firm or corporation, whether for compensation or otherwise, which are in conflict with Company's interests.

C. COMPENSATION.

1. SALARY: Commencing at the Effective Date for Executive's services hereunder, Company shall pay or cause to be paid as annual salary to Executive the amount of One Hundred Twenty-Six Thousand Dollars (\$126,000.00) for the Term, to be prorated in the event this Agreement is in effect for only a portion of the year. Said salary shall be payable in equal installments in conformity with Company's normal payroll period. Executive's salary shall be reviewed by the President and the Board of Directors from time to time at their discretion, but at least annually, and Executive shall receive such salary increase as the Board of Directors, in its sole discretion, shall determine, evaluating such factors as job performance and profitability of the Company and the general rate of inflation.

2. BONUS: Executive and Company mutually agree that whatever annual incentive bonus Executive may receive from Company will be paid in the sole discretion of Company's Board of Directors based upon the Company's annually established bonus formula. The Company agrees to continue with a future bonus program for the benefit of Executive which is substantially consistent with the bonus formula in place for the initial year thereof.

D. EXECUTIVE BENEFITS.

1. VACATION: Executive shall be entitled to fifteen days vacation annually. All vacation which is not taken during the year periods of the Term shall be accrued and carried forward in line with general vacation policy guidelines of the Company.

2. HEALTH INSURANCE BENEFITS: Executive shall be entitled to participate in medical, dental and other employee benefits pursuant to the established benefit plans of the Company.

3. OFFICE: Executive shall be furnished with an enclosed office for the performance of Executive's duties for Company.

4. LIFE INSURANCE: The Company shall also provide for the Executive, at Company's expense, a \$126,000.00 group life insurance policy, or its equivalent. Company will also pay for the cost of an annual physical not covered by Insurance Program.

5. RETIREMENT PROGRAM: Executive shall be entitled to all benefits pursuant to the Long Term Retirement Program, if he is a party to such program.

6. STOCK OPTION PROGRAM: Executive shall participate in and be entitled to benefits of the Company Stock Option Program.

E. BUSINESS EXPENSES AND REIMBURSEMENT.

1. BUSINESS EXPENSES: Executive shall be entitled to reimbursement by Company for any ordinary and necessary business expenses incurred by Executive in the performance of Executive's duties and in acting for Company during the Term including, but not limited to, entertainment, meals, travel expenses, conventions, meetings, seminars, and clubs in accordance with company policy in effect at the time. Review of such expenses shall be conducted in accordance with existing Company policy.

2. AUTOMOBILE: During the Term hereunder, Company shall provide Executive with an automobile allowance in the amount of Seven Hundred Fifty Dollars (\$750.00) per month as reimbursement for Executive's business use of his personal automobile, or a Company vehicle in line with the then existing vehicle policy. In the event that the allowance is paid in lieu of providing an automobile, the dollar amount of the allowance shall be subject to adjustment to reflect any inflationary factors. Should Executive receive an automobile allowance rather than use of a Company vehicle, Company shall have no other responsibility or obligation with respect to the automobile expenses of Executive. Executive shall procure and maintain insurance coverage on said automobile. Company shall furnish Executive, at no cost to Executive, with parking at Company facilities.

F. TERMINATION.

1. TERMINATION: Company may terminate this Agreement at any time, without further obligation or liability to Executive, by action of the Board of Directors in the event that:

(a) Executive commits an act or acts of malfeasance or gross malfeasance in his duties; or

(b) Executive engages in illegal activity which materially adversely affects Company's reputation in the community or which evidences the lack of Executive's fitness or ability to perform Executive's duties as determined by the Board of Directors in good faith.

Such termination shall not prejudice any remedy which Company may have at law, in equity, or under this Agreement. Termination pursuant to this section shall become effective immediately after notice of termination.

2. EFFECT OF TERMINATION: In the event of the termination of this Agreement prior to the completion of the Term for any of the reasons specified in Section F.1 (a) or (b), Executive shall be entitled to the salary earned by Executive prior to the date of termination as provided for in this Agreement, computed pro rata up to and including that date, and accrued but unused vacation time, but Executive shall be entitled to no further compensation for services rendered after the date of termination, unless specifically agreed in writing between Company and Executive.

G. GENERAL PROVISIONS:

1. MERGER OR CORPORATE DISSOLUTION: In the event of a merger where Company is not the surviving corporation, in the event of a consolidation, or in the event of transfer of all or substantially all of the assets of Company, Company shall assign this Agreement and the benefits thereof to any person, association or corporation acquiring all or substantially all of its assets as an entity or to any corporation into which it shall be merged or consolidated. Company shall be unconditionally released from all of its duties and obligations hereunder upon such assignment if the assignee shall expressly and unconditionally assume and agree to perform all of the duties and obligations of Company hereunder, or upon Executive's refusal to consent to such assignment. Furthermore, upon such transfer, the Term of this agreement shall be extended for a period of three full years. Such extension of the Term of this agreement shall be effective on the date of the transfer or merger.

2. CHANGE OF CONTROL: In the event that more than 15% of the Company's outstanding capital stock is acquired in connection with a tender offer for shares of Company or

other change in ownership resulting in a transfer of 15% or more of the Company's outstanding capital stock to a single entity, group or person, such ownership transfer shall be deemed a Change of Control.

Should Executive be terminated without cause following a Change of Control, but during the Term of this agreement, then Executive shall be paid an amount equal to three times his average gross salary, including bonuses, for the five years immediately preceding such termination (or such lesser period during which Executive provided services to Company), less the sum of \$100.00. In no event shall such payments exceed the limitations set forth in Internal Revenue Code Section 288G(d) (2).

3. EFFECTIVE DATE: The effective date of this Agreement shall be 2nd August, 1999.

4. TRADE SECRETS: During the Term, Executive will have access to and become acquainted with what Executive and Company acknowledge as trade secrets, to wit, knowledge or data concerning Company, including knowledge of financial condition, their financial needs, as well as their methods of doing business. Executive shall not disclose any of the aforesaid trade secrets, directly or indirectly, or use them in any way, either during the Term or thereafter.

5. RETURN OF DOCUMENTS AND PROPERTY: Executive expressly agrees that all manuals, documents, files, reports, studies, instruments, equipment, Company property or other materials used and/or developed by Executive during the Term are solely the property of Company, and that Executive has no right, title or interest therein. Upon termination of this Agreement, Executive or Executive's representative shall promptly deliver possession of all of said property to Company in good condition.

6. NOTICES: Any notice, request, demand or other communication required or permitted hereunder shall be deemed to be properly given when personally served in writing, when deposited in the United States mail, postage prepaid, or when communicated to a public telegraph company for transmittal, addressed to the Company at its head office location or the Executive at their last known address. Either party may change its address by written notice in accordance with this section.

7. BENEFIT OF AGREEMENT: This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, administrators, successors and assigns.

8. APPLICABLE LAW: Except to the extent governed by the laws of the United States, this Agreement is to be governed by and construed under the laws of the State of California.

9. CAPTIONS AND PARAGRAPH HEADINGS: Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

10. INVALID PROVISIONS: Should any provision of this Agreement for any reason be declared invalid, void or unenforceable by a court of competent jurisdiction, the validity and binding effect of any remaining portion shall not be affected, and the remaining portions of this Agreement shall remain in full force and effect as if this Agreement had been executed with said provision eliminated.

11. ENTIRE AGREEMENT: This Agreement contains the entire agreement of the parties. It supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by Company. Each party to this Agreement

acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement, but only by any agreement in writing signed by Company and Executive.

12. ATTORNEYS' FEES: If any action, including arbitration, is brought to enforce this Agreement or to determine the relative rights and obligations of either of its parties and a ruling is obtained in favor of either party, regardless of which party institutes the actions, the prevailing party will be entitled to reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

"COMPANY"  
WD-40 COMPANY

"EXECUTIVE"

By /s/ Garry O. Ridge  
-----  
GARRY O. RIDGE, President

/s/ Thomas J. Tranchina  
-----  
THOMAS J. TRANCHINA

By /s/ John B. Sidell  
-----  
JOHN B. SIDELL,  
Assistant Secretary

-8-

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ASSET PURCHASE AGREEMENT  
BETWEEN  
BLOCK DRUG COMPANY, INC.  
(SELLER)  
AND  
WD-40 COMPANY  
(BUYER)

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement ("Agreement"), is made and entered into effective as of the 25th day of March, 1999, by Block Drug Company, Inc. a corporation organized and existing under the laws of the State of New Jersey with its principal place of business being located at 257 Cornelison Avenue, Jersey City, New Jersey 07302 (hereafter referred to as "Seller") and WD-40 Company, a corporation organized and existing under the laws of the State of California, with its principal place of business being located at 1061 Cudahy Place, San Diego, California 92110, (hereafter referred to as "Buyer");

This Agreement sets forth the terms and conditions upon which Seller will sell to Buyer, and Buyer will purchase from Seller, certain defined properties, assets, goodwill and business of Seller, and will assume certain obligations of Seller, which relate exclusively to the LAVA brand heavy duty hand cleaner product line.

In consideration of the mutual agreements contained herein, intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1

DEFINITIONS

As used in this Agreement, each of the following terms shall have the following meanings:

1.1 ACCOUNTS RECEIVABLE means those orders shipped by Seller prior to Closing.

1.2 ACQUIRED ASSETS means only the following assets used exclusively in the Business:

(a) Seller's customer lists, customer files, sales literature, market research data and the product development information, if any, which are related exclusively to the Business and which are listed on Schedule 1.2 (a) hereto;

(b) the Inventory identified by type and cost in Schedule 1.2(b) (i) ("Finished Goods") and Schedule 1.2(b) (ii) (Raw Materials and Packaging);

(c) third party contracts, if any, to be assigned to Buyer at Closing as listed in Schedule 1.2(c), but only to the extent that those contracts relate exclusively to the Business and are assignable without the consent of the other party to such contracts;

(d) all of Seller's and its Affiliates right, title and interest, including worldwide title, to registered and pending trademarks, registered and pending trade names, trade dress, logos, copyright interests, slogans, trade secrets, technological and manufacturing know-how, patents, pending patent applications, if any, as listed on Schedule 1.2(d), together with related trademark files;

(e) Equipment as listed in Schedule 1.2(e); and

(f) the goodwill of the Business.

1.3 ADDITIONAL INVENTORY means all orders for packaging components, raw materials and finished goods which Seller placed with any third party manufacturer by Seller prior to Closing but which were not paid for by Seller prior to Closing as listed in Schedule 1.3.

1.4 AFFILIATE OR AFFILIATES means any corporation or other entity that is a subsidiary of the party in question (defined as being more than fifty percent directly or indirectly owned by that party), a parent of the party in question (defined as having more than fifty percent direct or indirect ownership

of that party), or any subsidiary of the parent of the party in question, as those terms are defined by this Section.

1.5 ASSUMED OBLIGATIONS includes but is not limited to obligations or liabilities: (a) under any open purchase order(s) or portion(s) thereof as listed in Schedule 1.5(a) for the Additional Inventory; (b) to third party suppliers as listed in Schedule 1.5(b) for services relating exclusively to the Business ordered, but not paid for, by Seller prior to the Closing; (c) all sales and promotional agreements as listed in Schedule 1.5(c); and (d) for product liability, product returns, and product warranty for all products of the Business manufactured by or for the Business to the extent those liabilities arise more than one hundred eighty (180) days after Closing, except that Seller's financial liability for returns post Closing shall be limited to twenty thousand dollars (\$20,000) in total with the right to sell to Buyer useable returns at cost.

1.6 BUSINESS means the activities of the Seller in connection with a hand cleanser bearing the Lava trademark consisting of the Acquired Assets and the Assumed Obligations, and specifically excludes the Excluded Assets and the Excluded Liabilities.

1.7 BUYER COMPETITIVE BUSINESS means any Person that competes with Buyer in marketing any Heavy Duty Hand Cleaner products.

1.8 CLOSING means both the closing of the transactions contemplated by Article 3 of this Agreement in accordance with the terms and upon the conditions set forth in this Agreement, and the close of business on the date on which the Closing occurs, as provided in Section 3.1 of this Agreement.

1.9 ENGAGED PRIMARILY IN A BUYER COMPETITIVE BUSINESS means that greater than twenty percent

(20%) of the sales of such Person are in the Heavy Duty Hand Cleaner Market.

1.10 EXCLUDED ASSETS means, without limitation: (a) cash, cash equivalents (or similar type investments), and Accounts Receivable of the Business; (b) insurance policies of Seller pertaining to the Business and all rights of Seller of every nature and description under or arising out of such insurance policies; (c) claims for refunds of Taxes paid by Seller and/or its respective Affiliates; (d) all rights of Seller under this Agreement and any other agreements or instruments delivered or to be delivered to Seller by Buyer pursuant to this Agreement; (e) any trademarks, trade names, trade dress, logos, copyright interests, slogans, trade secrets, technological and manufacturing know-how, patents, pending patent applications, or any rights under any of the foregoing, of Seller that do not relate exclusively to the Business or which are not set forth in Schedule 1.2(d); and (f) any and all assets not expressly listed as Acquired Assets.

1.11 EXCLUDED LIABILITIES means those liabilities retained by Seller and consisting of: (a) Taxes due from Seller for periods prior to Closing; (b) any claims brought by an employee of the Seller or an Affiliate of Seller; and (c) all liability of Seller arising out of any actions, claims, proceedings, litigation or any investigations by any party relating to the conduct of Business prior to Closing which arise within one hundred eighty (180) days after Closing; and (d) all other obligations incurred in the ordinary course of business not specifically included as an Assumed Obligation, including but not limited to Inventory transferred at Closing but not yet paid for by Seller.

1.12 HEAVY DUTY HAND CLEANER means a consumer product which is primarily promoted for its superior hand washing efficacy against stubborn soils, and which contains natural abrasive materials providing significant abrasive effect in the product.

1.13 INVENTORY means all finished goods inventories, packaging components, work-in-progress, raw materials and any promotional material exclusively related to the Business and which is owned by Seller at Closing.

1.14 MATERIAL ADVERSE CHANGE shall mean a change in the Business that has been or is reasonably likely to be materially adverse to the value of the Acquired Assets taken as a whole or materially adverse to the financial condition or results of operations of the Business.

1.15 PERSON means any legal entity, whether individual person, partnership, firm or corporation.

1.16 TAX AND TAXES means all taxes, charges, fees, levies, or other assessments, including, without limitation, income, excise, property, value added, real estate, sales use, payroll, and franchise taxes imposed by the United States or any state, county, or local government, subdivision or agency thereof, or any other jurisdiction outside the United States. Such term shall include any interest, penalties, or additions payable in connection with such taxes, charges, fees, levies, or other assessments.

## ARTICLE 2

### SALE AND PURCHASE

#### 2.1 Purchase and Sale of the Business.

Subject to the terms and conditions of this Agreement, Seller agrees to sell the Business to the Buyer, and Buyer agrees to purchase the Business from the Seller and assume the Assumed Obligations. The Excluded Assets and the Excluded Liabilities are expressly excluded from the sale of the Business to the Buyer, it being understood and agreed by the parties that Seller shall retain the Excluded Assets and the Excluded Liabilities for its own account.

## 2.2 Purchase Price

(a) The Purchase Price shall be:

- (i) the sum of nineteen million United States dollars (US \$19,000,000.00) for the goodwill and all Acquired Assets other than Inventory; plus
- (ii) an amount equal to the price of the Inventory as determined by applying cost on Schedule 1.2(b)(i) and (ii) to the physical count of Inventory pursuant to Section 2.3.

(b) On the day prior to Closing Date the Buyer shall pay Seller the Purchase Price set forth in Section 2.2(a)(i) plus ninety percent (90%) of the estimated Inventory value in immediately available funds by wire transfer to an account specified by Seller in writing at least two business days prior to the Closing. The balance of the Inventory value will be paid to Seller by Buyer with a company check at Closing.

## 2.3 Physical Count Prior to Closing

Two (2) days prior to Closing, Seller shall cease shipment of Inventory to any customer. Prior to Closing, the Purchaser shall, at its own expense, conduct a physical accounting of the Inventory of Seller and deliver a schedule of such Inventory values (the "Inventory Certificate") to Seller on or prior to Closing. Seller may observe such physical count. In the event that the Inventory Certificate has a significant variance from the inventory count reflected on Seller's books and records, Purchaser and Seller shall agree to appropriate adjustments on or prior to the Closing.

## 2.4 Allocation of the Purchase Price.

The Purchase Price shall be allocated in accordance with the requirements of Section 1060 of the Internal Revenue Code. Such allocation shall be completed and delivered to Seller, together

with a draft Form 8594 (applicable to the U.S. Acquired Assets), no later than 180 days after Closing for Seller's review and approval, which approval shall not be unreasonably withheld. In the event that Seller fails to notify Buyer within 15 days of receipt of such allocation, in writing and with specificity as to assets and amounts, that it does not approve of the allocation made by Buyer, Seller shall be deemed conclusively to have approved such allocation and such Form 8594, and Seller and Buyer shall thereafter be bound to make all tax filings, including any state and local tax returns, on a basis consistent with such Purchase Price allocation. In the event that Seller has not approved and has not been deemed to have approved the aforementioned allocation in accordance with this Section 2.4, and Buyer and Seller have not otherwise reached agreement with respect to such matter, Buyer shall refer the matter to the accounting firm of Ernst & Young, L.L.P. for resolution, and the determination of such accounting firm with respect to allocation of the Purchase Price shall be final and binding on the parties. Each party shall pay one-half of the fees and expenses of such accounting firm. Seller and Buyer agree not to take a position on any income tax return, before any governmental agency charged with the collection of any income tax, or in any judicial proceeding, that is inconsistent with the Purchase Price allocation made in accordance with this Section 2.4.

### ARTICLE 3

#### THE CLOSING

##### 3.1 Time and Place of Closing.

Subject to the satisfaction or waiver of all of the conditions set forth in Article 7, the Closing will take place at the offices of Seller at Jersey City, New Jersey, within five

(5) business days after the termination of the Hart-Scott-Rodino waiting period or on April 30, 1999, whichever comes later, or at such other time or place as the parties may mutually agree. Either party, acting in good faith, may request in writing an extension of the Closing for an additional five (5) business days in order to fulfill closing obligations.

### 3.2 Actions at Closing.

At the Closing, the following actions shall occur:

(a) Seller shall deliver to Buyer, or to such Affiliate of Buyer as Buyer may designate, the following:

- (i) a certificate by the President or appropriate Vice President of Seller, in the form attached as Exhibit 3.2(a)(i), that the warranties and representations of Seller set forth in Article 5 of this Agreement are true and correct as of the Closing;
- (ii) opinion of Seller's General Counsel in the form attached as Exhibit 3.2(a)(ii) certifying that, to the best of counsel's knowledge, the representations and warranties set forth in Sections 5.1, 5.2, and 5.3 of this Agreement are true and correct as of the Closing;
- (iii) a bill of sale for the Acquired Assets in the form attached as Exhibit 3.2(a)(iii);
- (iv) assignments for the Contracts listed in Schedule 1.2(c);

- (v) certified copies of any resolutions by the Executive Committee of the Seller's Board of Directors or other necessary corporate actions of Seller authorizing the execution and performance of this Agreement.
  - (vi) assignments for those trademarks included within Schedule 1.2(d) in the form attached as Exhibit 3.2(a)(vi);
  - (vii) such other documents as are in the reasonable opinion of counsel for Buyer and Seller necessary or desirable to transfer the Business to Buyer.
- (b) Buyer shall deliver to Seller, or to such Affiliate of Seller as Seller may designate, the following:
- (i) The Purchase Price in immediately available funds;
  - (ii) a certificate by the President or appropriate Vice President of Buyer, in the form attached as Exhibit 3.2(b)(ii), that the warranties and representations of Buyer set forth in Article 4 of this Agreement are true and correct as of the Closing;
  - (iii) opinion of counsel in the form attached as Exhibit 3.2(b)(iii) certifying that, to the best of counsel's

knowledge, the representations and warranties set forth in Sections 4.1, 4.2, and 4.3 of this Agreement are true and correct as of the Closing; and

- (iv) a certificate of Secretary certifying that the execution and performance of this Agreement was duly authorized at a meeting of Buyer's Board of Directors substantially in the form of Exhibit 3.2(b) (iv);
- (v) the Assumption Agreement, substantially in the form of Exhibit 3.2(b) (v), by which Buyer accepts responsibility for the Assumed Obligations; and
- (vi) such other documents as are in the reasonable opinion of counsel for Buyer and Seller necessary or desirable to transfer the Business to Buyer.

#### ARTICLE 4

##### REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller the following, which shall be true and correct on the date of this Agreement and as of the Closing;

##### 4.1 Organization and Good Standing.

Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of California and has full corporate power to own its properties and conduct the business

presently being conducted by it, and is duly qualified to do business in, and is in good standing under the laws of the State of California.

#### 4.2 Power and Authority

Buyer has full power and authority to purchase the assets and Business to be sold pursuant to this Agreement, and this Agreement and the transactions contemplated hereby have been or shall be duly and validly authorized by all necessary corporate action on the part of Buyer by the Closing. Upon the execution and delivery of this Agreement, it will be a valid and binding obligation of Buyer enforceable in accordance with its terms.

#### 4.3 Violations Created by this Agreement.

The execution and delivery of this Agreement does not, and the consummation of the transactions herein contemplated will not, materially violate any law or the terms of any contract to which Buyer is a party.

#### 4.4 Finder's Fees and Commissions

Buyer has not incurred any liability for finder's fees, brokerage fees, agent's commissions or other similar forms of compensation in connection with this Agreement, or the transactions contemplated hereby, for which Seller shall have any liability.

#### 4.5 Financing.

Buyer has, or has made satisfactory arrangements to provide at the Closing, funds sufficient for the Purchase Price to be paid by it under the terms of this Agreement.

#### 4.6 No knowledge of Material Breach

Buyer has no knowledge of any fact or circumstance which would support any claim or cause

of action against Seller for a material breach of any representation or warranty.

#### ARTICLE 5

##### REPRESENTATIONS AND WARRANTIES OF SELLER

The only representations and warranties of the Seller are those set forth in this section. Notwithstanding the fact that Buyer will be acquiring certain trademarks outside of the United States, the Buyer acknowledges that the Seller has only conducted the Business within the United States and Buyer therefore understands and agrees that each of the representations and warranties given by Seller are given only with the respect to the United States. There are no liens or encumbrances on title to the trademarks; provided, however, the Buyer understands there may be pre-rights declaration agreements entered into during the course of prosecution of a trademark application. The details of any pre-right declaration agreement will be located in the trademark files, which will be delivered to Buyer by Seller at Closing. To the extent there are any pre-rights declaration agreements, the ability to use the trademarks in connection with the goods currently being sold and marketed in the United States will not be materially effected. The Buyer further understands that all trademarks are subject to certain use requirements and Seller makes no representation, warranty or guarantee as to whether the trademarks are subject to cancellation due to non-use. The representations and warranties given by Seller to Buyer are as of this date, and shall as of Closing, be true and correct in all material respects.

##### 5.1 Organization and Good Standing.

Seller is a corporation duly organized, validly existing, and in good standing under the laws

of the State of New Jersey and has full corporate power and authority to carry on the Business as now being conducted, has all permits and licenses that are necessary to conduct the Business in the United States as now being conducted and to ownership or operation of its properties and assets, and is duly qualified to do business in the State of New Jersey.

#### 5.2 Power and Authority.

Seller has full power and authority to execute, deliver and carry out the terms and conditions of this Agreement. This Agreement, and the transactions contemplated hereby, have been duly and validly authorized by all necessary corporate action on the part of Seller, except where failure to obtain that authorization is not material in the aggregate. Upon the execution and delivery of this Agreement, it will be valid and binding obligation of Seller enforceable in accordance with its respective terms.

#### 5.3 Encumbrances/Violations Created by this Agreement.

The execution and delivery of this Agreement does not, and the consummation of the transactions herein contemplated will not, create any encumbrances on the Acquired Assets in favor of third parties and will not violate any law, except where not material in the aggregate.

#### 5.4 Finder's Fees and Commissions

Seller has not incurred any liability for finder's fees, brokerage fees, agent's commissions or other similar forms of compensation in connection with this Agreement, or the transactions contemplated hereby, for which Buyer shall have any liability.

#### 5.5 Title to Acquired Assets

Seller has and will convey to Buyer, good and marketable title to all of the Acquired Assets as necessary and appropriate to continue to conduct the Business in the United States as it has been conducted, free and clear of any security interests, liens, pledges, claims, charges, options, intellectual property infringement claims, or other encumbrances, except as listed in Schedule 5.5.

#### 5.6 Litigation and Claims.

Seller is not aware of any claim, action, suit, proceeding, arbitration, or investigation, including product liability, product warranty, tax, workers' compensation, EEO or other employee-related proceedings, pending or threatened by or before any court, governmental authority or private arbitration tribunal in excess of one thousand dollars (\$1,000) against Seller and arising out of the operation or ownership of the Business by the Seller as of the date hereof.

#### 5.7 Permits and Licenses.

Seller has all permits, approvals, consents, licenses, certificates of public convenience, orders and other authorizations of all governmental agencies and authorities, whether federal, state or local required to permit the operation of the Business, except where failure to do so will not have a material effect on the Business. So far as Seller is aware, all such permits, approvals, consents, licenses, certificates of public convenience, orders and other authorizations are valid and in good standing with the issuing agencies and not subject to any proceedings for suspension, modification or revocation as of the date hereof. The Business is in material compliance with all laws, statutes, ordinances and regulations of the United States relating to the Business.

#### 5.8 No Material Adverse Change.

Since December 31, 1998 there has not been any Material Adverse Change in the Business

except as set forth on Schedule 5.8 or as discovered by Buyer during its due diligence investigation.

## ARTICLE 6

### COVENANTS OF THE PARTIES

#### 6.1 Access to Information.

##### (a) Buyer's Access to Information and Records Before Closing.

Buyer may, prior to the Closing, make or cause to be made such reasonable investigation of the operation and assets of the Business as Buyer deems necessary or advisable to familiarize itself with such assets and other matters. Upon reasonable notice, Seller agrees to permit Buyer and its authorized representatives (including legal counsel and independent accountants) to have full access at reasonable business hours and upon reasonable prior notice to any relevant books and records of the Business, and Seller and its officers will furnish Buyer with such financial and operating data and other information and copies of documents with respect to the Business products and operations as Buyer shall from time to time reasonably request.

##### (b) Return of Seller's Documents.

In the event of the termination of this Agreement prior to Closing, Buyer will deliver to Seller all documents, work papers and other materials obtained from Seller relating to Seller or the transaction contemplated hereby, whether so obtained before or after the execution hereof, and shall destroy any copies, charts, analyses or other documents produced from said documents, work papers

and other materials obtained from Seller. Buyer's counsel shall certify in writing that the aforementioned actions have been taken.

(c) Use of the Parties' Information.

- (i) Prior to Closing, neither Buyer nor Seller shall, except to the extent mutually agreed upon, disclose to third parties any information obtained from the other, nor shall the receiving party use that information to the other's detriment. Each party shall keep any information so obtained confidential and will not use it in any way other than to obtain any governmental consents or approval necessary for the transactions contemplated by this Agreement, except that such restriction shall not apply to any information received from the other party (i) which is in or comes into the public domain through no fault of the receiver of the information, (ii) which was in the possession of the receiver of the information before the commencement of negotiations leading to this Agreement, (iii) which at any time lawfully comes into the possession of the receiver of the information from third parties who have a right to disclose such information otherwise than in connection with this Agreement, (iv) which is disclosed as a result of the provision set forth in Section 10.1 or (v) which is required to be disclosed by law.

- (ii) Following Closing, the parties shall not disclose to third parties any information obtained from the other, nor shall the receiving party use that information to the other's detriment. The parties shall keep any information so obtained confidential, except that such restriction shall not apply to any information received from the other party (i) which is in or comes into the public domain through no fault of the receiver of the information, (ii) which was in the possession of the receiver of the information before the commencement of negotiations leading to this Agreement, (iii) which at any time lawfully comes into the possession of the receiver of the information from third parties who have a right to disclose such information or (iv) which is required to be disclosed by law.

## 6.2 Obligations of the Parties Prior to Closing.

Except for the steps or actions taken pursuant to prior written consent of Buyer, Seller from the date of this Agreement until the Closing will conduct the Business consistent with historical practices, and during that period Seller shall:

- (a) conduct the Business only in the normal course;
- (b) not transfer any of the assets or properties of the Business except in the normal course;
- (c) except for customary agreements in the nature of pre-rights declarations in trademark

matters, not enter into any patent, know-how, trademark or trade name licenses, purchase orders for raw materials, packaging and/or finished goods, or any other leases, licenses, contracts or other commitments relating exclusively to the Business, unless each such lease, license, contract, purchase order or commitment is disclosed to and approved by Buyer - the foregoing notwithstanding Seller may enter into new sales contracts in the ordinary course of business.

(d) continue to meet the contractual obligations of, and to pay obligations relating to, the Business as they mature in the normal course; and

(e) subject to the disclosures on Schedule 5.8, maintain the business relations of Seller with its suppliers, business customers and others with whom it has business relations relating to the Business.

#### 6.3 Best Efforts of the Parties.

Each of Seller and Buyer shall use its best efforts to cause all of the conditions to the obligations of the other to consummate the transactions contemplated hereby, as specified in Article 7, to be met as soon as practicable after the date of this Agreement and to do, or cause to be done, all things necessary to consummate the transactions contemplated hereby.

#### 6.4 Obligations of the Parties After Closing

(a) Additional Documents. From time to time after the Closing, Buyer and Seller agree to execute and deliver, without further consideration, such documents as either party hereto may reasonably request, in such form as may be appropriate, if necessary or advisable in connection with the consummation of the transactions contemplated hereby or any other agreement delivered in connection herewith.

(b) Cooperation in Litigation. Buyer and Seller agree that, in the defense of any litigation, hearing, regulatory proceeding, or investigation or other similar matter relating to the Business, they will make available during normal business hours, but without unreasonably disrupting their respective businesses, all personnel and original records of the Business reasonably necessary or desirable to permit the effective defense or investigation of such matters. If business information of Seller other than that pertaining to the Business is contained in such records, Buyer and Seller will enter into appropriate secrecy commitments to protect such information.

#### 6.5 Seller's Agreement Not to Compete.

(a) Neither Seller, nor any Affiliate of Seller, shall market any Heavy Duty Hand Cleaner within the United States for a period of five (5) years following Closing. For a period of three years from Closing, neither Seller, nor any Affiliate of Seller, shall introduce any Heavy Duty Hand Cleaner of its own outside of the United States; provided, however, nothing hereunder shall be construed to prevent an Affiliate from acting as a distributor for Heavy Duty Hand Cleaner outside of the United States on behalf of a third party for not more than ninety (90) days after the date that Seller has been given written notice by Buyer of such Affiliate's activity.

(b) Seller shall not be deemed to be in violation of Section 6(a) by virtue of the fact that Seller, or any of its Affiliates: (i) invests in or owns an interest in any Person which is not Engaged Primarily in a Buyer Competitive Business; or (ii) invests in securities having less than ten percent (10%) of the outstanding voting power of any Person which is Engaged Primarily in a Buyer Competitive Business, the securities of which are publicly traded or listed on any securities exchange or automated quotation system; or (iii) acquired a Buyer Competitive Business as part of an

acquisition, by joint venture, merger, or other business combination, or the assets of, or the majority of the voting interest in, another Person (hereinafter a "Target Business") if the revenue derived by the Target Business from the Buyer Competitive Business in the fiscal year preceding such acquisition constituted less than twenty percent (20%) of the aggregate net sales of the Target Business.

(c) In the event Seller or an Affiliate acquires a Buyer Competitive Business under the circumstances described in Section 6.5(b)(iii) above, and if the sales of the Buyer Competitive Business contained within the Target Business exceed five million U.S. dollars (U.S. \$5,000,000.00) on an annual basis, Seller or such Affiliate shall thereafter divest such Buyer Competitive Business with twenty four (24) months from the date of purchase of the Buyer Competitive Business by way of "auction" or other competitive bidding process, negotiated sale, or such other manner of divestiture as Seller, in its sole and non-reviewable discretion, deems appropriate.

#### 6.6 Ecolab Inc.

(a) Based upon Buyer's desire to negotiate a new arrangement directly with Ecolab Inc. which Buyer believes will be attractive to Ecolab Inc., and at Buyer's request, Seller shall give Ecolab notice, no later than May 15, 1999, to terminate its existing agreements with Ecolab Inc. relating to the Lava product and the Lava trademark. Buyer shall enable Seller to continue to fully perform under the agreements between Ecolab Inc. and Seller for the economic benefit of Buyer (less reasonable out-of-pocket expenses incurred by Seller), until their termination, but in no event later than September 30, 1999. Buyer shall attempt to negotiate with Ecolab Inc. for an earlier termination than September 30, 1999 of Seller's obligations under the Ecolab agreements.

(b) Seller shall indemnify Buyer and hold it harmless against any loss, claim or liability arising from any dispute(s) between Ecolab Inc. and Seller which arise prior to Closing and relate solely to Buyer's performance under the Ecolab Inc. agreements or any subsequent post-termination notice claim that the Ecolab Inc. agreements will not terminate effective September 30, 1999.

(c) Buyer shall indemnify Seller and hold it harmless against any loss, claim, or liability arising from any dispute relating to Ecolab Inc. which arise on or after March 25, 1999 other than those caused by Seller's failure to ship product properly ordered by Ecolab Inc. through no fault of Buyer.

#### 6.7 Lava Institutional

Buyer agrees that Seller shall retain Lava 7.5 oz. Institutional product and also have the right to sell such product to a third party(s) of its choosing. Should Buyer wish to purchase this product and Seller has not yet sold this product to a third party, Seller will consider an offer from Buyer.

#### 6.8 CCL

If CCL does not agree to manufacture Liquid Lava at its Rexdale, Ontario, Canada plant then Seller shall store free of charge to Buyer the Liquid Lava raw materials and packaging for a period of up to ninety (90) days post-closing.

ARTICLE 7  
CLOSING CONDITIONS

7.1 Conditions of Performance by Buyer.

All obligations of Buyer to be performed at the Closing are subject to the fulfillment, prior to or at the Closing, of each of the following conditions, any of which may be waived by Buyer:

(a) all representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects as of the Closing as if made again at Closing;

(b) Seller shall have fully performed all commitments hereunder up to the Closing and shall tender the required documents at the Closing as set forth in Article 3; and

(c) All applicable waiting periods in respect of the transactions contemplated by this Agreement under the Hart-Scott-Rodino Act have expired or early termination shall have been obtained.

7.2 Conditions of Performance by Seller.

All obligations of Seller to be performed at the Closing are subject to the fulfillment, prior to or at the Closing, of each of the following conditions, any of which may be waived by Seller:

(a) all representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects as of the Closing as if made again at Closing;

(b) Buyer shall tender the cash and required documents at the Closing as set forth in Articles 2 and 3; and

(c) all applicable waiting periods in respect of the transactions contemplated by this

Agreement under the Hart-Scott-Rodino Act have expired or early termination shall have been obtained.

ARTICLE 8

INDEMNIFICATIONS: PROCEDURES FOR CLAIMS: ARBITRATION

8.1 Indemnification by Seller.

(a) Seller hereby assumes, undertakes, and will pay or otherwise discharge, and will indemnify and hold Buyer harmless against:

- (i) all claims, losses, liabilities, damages, costs and expenses, including, without limitation, reasonable fees and expenses of attorneys incurred in the investigation, prosecution or defense (at trial and appellate levels and otherwise) of any claim or action brought by or against Buyer (hereinafter collectively called "Losses") arising out of, based upon, or alleging any matter involving an Excluded Liability or breach of a representation and warranty or covenant made by Seller herein, and;
- (ii) all costs and expenses of Buyer (including, without limitation, reasonable fees and expenses of attorneys)

incurred in connection with the enforcement of any rights of Buyer under the indemnity provided in this Section.

(b) Seller's liability under Section 8.1(a) with respect to Losses arising out of an Excluded Liability described in Section 1.11(c) or breach of a representation and warranty or covenant by Seller shall not arise unless Buyer's Losses, in the aggregate, exceed two hundred thousand (\$200,000.00) dollars, except that the foregoing limitation shall not apply to any claims for indemnification arising with respect to broker or finder's fee under Section 5.4 or with respect to title to the Acquired Assets in the United States under Section 5.5; but in no event shall Seller's liability to Buyer with respect to any Losses exceed a total of five million (\$5,000,000.00) dollars.

(c) Promptly after receipt by Buyer of notice of the assertion of any claim or the commencement of any action in respect of which indemnity or reimbursement may be sought against Seller hereunder (for purposes of this Section, an "Assertion"), Buyer shall notify Seller in writing of the Assertion, but the failure to so notify Seller shall not relieve Seller of any liability it may have to Buyer. If the matter involves litigation or governmental investigation (including a tax audit), Seller shall be entitled to participate in and, to the extent Seller elects by written notice to Buyer within thirty (30) days after receipt by Seller of notice to such Assertion, to assume the defense of such Assertion, at its own expense, with counsel chosen by it which shall be reasonably satisfactory to Buyer. Notwithstanding that Seller shall have elected by such written notice to assume the defense of any Assertion, Buyer shall have the right to participate in the investigation and defense

thereof, with separate counsel chosen by Buyer, but in such event the fees and expenses of such separate counsel shall be paid by Buyer.

- (d) Notwithstanding anything in this Section to the contrary,
  - (i) Seller shall have no obligation with respect to an Assertion if, in connection therewith, Buyer, without the written consent of Seller, shall settle or compromise any action or consent to the entry of any judgment, and
  - (ii) Seller shall not, without the written consent of Buyer, (A) settle or compromise any action or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to Buyer of a duly executed written release of Buyer from all liability in respect of such action, which release shall be satisfactory in form and substance to counsel for Buyer, or (B) settle or compromise any action in any manner that, in the sole judgment of Buyer or their counsel, may materially and adversely affect Buyer other than as a result of money damages or other money payments.

8.2 Indemnification by Buyer.

(a) Buyer hereby assumes, undertakes, and will pay or otherwise discharge, and will indemnify and hold Seller harmless against:

- (i) all claims, losses, liabilities, damages, costs and expenses, including, without limitation, reasonable fees and expenses of attorneys incurred in the investigation, prosecution of defense (at trial and appellate levels and otherwise) of any claim or action brought by or against Seller (hereinafter collectively called "Losses") arising out of, based upon, or alleging any matter involving an Assumed Obligation or breach of any representation, warranty or covenant by Buyer herein, and
- (ii) all costs and expenses of Seller (including, without limitation, reasonable fees and expense of attorneys) incurred in connection with the enforcement of any rights of Seller under the indemnity provided in this Section.

(b) Promptly after receipt by Seller of notice of the assertion of any claim or the commencement of any action in respect of which indemnity or reimbursement may be sought against

Buyer hereunder (for purposes of this Section, an "Assertion"), Seller shall notify Buyer in writing of the Assertion, but the failure to so notify Buyer shall not relieve Buyer of any liability it may have to Seller. If the matter involves litigation or governmental investigation (including a tax audit), Buyer shall be entitled to participate in and, to the extent Buyer elects by written notice to Seller within thirty (30) days after receipt by Seller of notice of such Assertion, to assume the defense of such Assertion, at its own expense, with counsel chosen by it which shall be reasonably satisfactory to Seller. Notwithstanding that Buyer shall have elected by such written notice to assume the defense of any Assertion, Seller shall have the right to participate in the investigation and defense thereof, with separate counsel chosen by Seller, but in such event the fees and expenses of such separate counsel shall be paid by Seller.

- (d) Notwithstanding anything in this Section to the contrary,
  - (i) Buyer shall have no obligation with respect to an Assertion if, in connection therewith, Seller, without the written consent of Buyer, shall settle or compromise any action or consent to the entry of any judgment, and
  - (ii) Buyer shall not, without the written consent of Seller, (A) settle or compromise any action or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to Seller of a duly executed written release of Seller from all liability in respect of such action, which release shall be satisfactory in form and substance to counsel for Seller, or (B) settle or compromise any action in any

manner that, in the sole judgment of Seller or its counsel, may materially and adversely affect Seller other than as a result of a money damages or other money payments.

### 8.3 Arbitration

(a) Any dispute, controversy or claim asserted by either party against the other, including any issue as to whether or not a claim is arbitrable, arising out of or relating to this Agreement or any document or agreement executed pursuant to this Agreement or the breach thereof, and including without limitation any claim for indemnification pursuant to Article 8 hereof, shall be settled by arbitration if so requested by either party pursuant to Section 8.3(b) below. The party intending to file a notice of arbitration shall provide the other party fifteen (15) days prior written notice of its intent to file for an arbitration. During such fifteen (15) day period the parties agree that a senior officer of each party shall meet personally in Chicago, Illinois to discuss, in good faith efforts, to resolve the dispute(s). If the party receiving notice refuses to meet or fails to appear on the agreed upon date of such meeting, the notifying party may file its notice of arbitration and include a statement indicating the receiving party's unwillingness to informally meet to resolve the dispute(s). The arbitration shall be conducted by one arbitrator, who shall be appointed pursuant to the Commercial Arbitration Rules of the American Arbitration Association ("AAA"). The arbitration shall be held in Chicago, Illinois and shall be conducted in accordance with the Commercial Arbitration Rules of the AAA, except that the rules set forth in this Section 8.3 shall govern such arbitration to the extent that they conflict with the rules of the AAA.

(b) Upon written notice by a party to the other party of a request for arbitration hereunder, the parties shall use their best efforts to cause the arbitration to be conducted in an expeditious manner, the parties using their best efforts to cause the arbitration to be completed within sixty (60) days after selection of the arbitrator. The arbitration shall apply New Jersey law in accordance with Section 10.13 of this Agreement, except to the extent that those laws conflict with either the Commercial Arbitration Rules of the AAA or the provisions of this Section 8.3. All other procedural matters shall be within the discretion of the arbitrator. In the event a party fails to comply with the procedures in any arbitration in a manner deemed material by the arbitrator, the arbitrator shall fix a reasonable period of time for compliance and, if the party does not comply within said period, a remedy deemed just by the arbitrator, including an award of default, may be imposed.

(c) Neither party shall be entitled to seek, nor shall the arbitrator be empowered to award, punitive, consequential, exemplary or indirect damages. The determination of the arbitrator shall be final and binding on the parties. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

#### ARTICLE 9

#### TERMINATION AND ABANDONMENT

9.1 Termination.

This Agreement may be terminated at any time prior to the Closing by mutual consent of Seller and Buyer.

9.2 Procedure and Effect of Termination.

In the event of termination of this Agreement and abandonment of the transactions contemplated hereby by either of the parties pursuant to this Section, written notice thereof shall promptly be given to the other party and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned without further action by either of the parties hereto, and neither of the parties hereto shall have any liability or further obligation to the other party hereto pursuant to this Agreement except as stated in this Section and in Sections 6.1(b) and 6.1(c), which obligations shall continue in perpetuity.

ARTICLE 10

MISCELLANEOUS PROVISIONS

10.1 Public Announcements.

Any announcements or similar publicity with respect to this Agreement or the transactions contemplated herein shall be approved by both Seller and Buyer in advance, provided that such approval shall not be unreasonable withheld or delayed and that nothing herein shall prevent either party upon notice to the other from making public announcements to comply with the requirements of law or contract.

10.2 Amendment and Modification.

This Agreement may be amended, modified, or supplemented only by the written agreement of the parties hereto.

#### 10.3 Waiver of Compliance.

Except as otherwise provided in this Agreement, any failure of either of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefit thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. The failure of any party hereto to enforce at any time any of the provision of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any part thereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to be waiver of any other or subsequent breach.

#### 10.4 Survival of Representations and Warranties.

Each and every representation and warranty of Seller or Buyer contained herein or in any other document delivered prior to or at Closing shall survive for a period of six (6) months (except that in the case of Seller's representation and warranties contained in Section 5.3 and Section 5.5 which shall be for a period of twelve (12) months) from the Closing or from termination of this Agreement pursuant to Article 9.

#### 10.5 Cost and Expenses.

Except as expressly otherwise provided in this Agreement, each party hereto shall bear its

own costs and expenses in connection with this Agreement and the transactions contemplated hereby.

10.6 Notices.

All notices required or permitted hereunder shall be in writing and shall be deemed to be properly given: (a) when personally delivered to the party entitled to receive the notice; (b) upon receipt of a facsimile message confirmed by first-class mail, postage prepaid; (c) upon receipt of package delivered by overnight courier; or (d) when sent by certified or registered mail, postage prepaid properly addressed to the party entitled to receive such notice at the address stated below or such other address as one party may so notify other.

Seller: Block Drug Company, Inc.

257 Cornelison Avenue

Jersey City, New Jersey 07302

Attention: Senior Vice President and General Counsel

Fax: (201) 451-2534

Buyer: WD-40 Company

1061 Cudahy Place

San Diego, California 92110

Attention: Garry O. Ridge

Fax: (619) 275-4958

With a copy to: John B. Sidell, Esq

Harmsen Carpenter Sidell & Olson  
Symphony Towers  
750 B Street, Ste. 1800  
San Diego, California 92101  
Fax: (619) 238-0087

10.7 Exhibits and Schedules.

The Exhibits and Schedules attached to this Agreement are made a part of this Agreement, and reference to a document or agreement in one Exhibit or Schedule shall deemed reference to such document or agreement in all Exhibits or Schedules.

10.8 Successors and Assigns.

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. Neither Seller nor Buyer may assign this Agreement or any of its rights or liabilities hereunder without the prior written consent of the other party hereto, except that Seller may so assign to one or more of its Affiliates.

10.9 Entire Agreement.

This Agreement, including the Exhibits and Schedules attached hereto and any documents referred to herein, shall constitute the entire Agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments, and writings with respect to such subject matter.

10.10 Illegality and Severability.

In the event a court of competent jurisdiction holds any part or provision of this Agreement

to be illegal, invalid, unenforceable or in conflict with the applicable laws or regulations, shall be ineffective to the extent of such holding and shall be replaced with a part or provision that accomplishes, to the extent possible, the original commercial purpose and economic benefit of such part or provision in a valid and enforceable manner, without affecting, impairing or invalidation the remaining provisions which shall remain binding on the parties hereto and in full force and effect.

#### 10.11 Captions

The captions appearing in this Agreement are inserted only as a matter of convenience and as a reference and in no way define, limit or describe the scope or intent of this Agreement or any of the provisions hereof.

#### 10.12 Counterpart.

This Agreement may be executed in on or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one agreement.

#### 10.13 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, but in no event shall any conflict of law provision be applied in the governance and interpretation of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

Block Drug Company, Inc.

WD-40 Company

By: /s/ Peter C. Mann

By: /s/ Garry O. Ridge

Name Printed: Peter C. Mann

Name Printed: Garry O. Ridge

Title: President - Americas Division

Title: President/CEO

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## SUBSIDIARIES OF THE REGISTRANT

The Registrant has the following wholly owned subsidiaries which do business under their respective legal names:

NAME ----	PLACE OF INCORPORATION -----
WD-40 Manufacturing Company	California, USA
WD-40 Products (Canada) Ltd.	Ontario, Canada
WD-40 Company Limited	London, England
WD-40 Company (Australia) Pty. Limited	New South Wales, Australia

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-90972 and No. 333-41247) of WD-40 Company of our report dated September 28, 1999 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

San Diego, California  
November 24, 1999

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