

**WD-40**

**Moderator: Wendy Kelley  
June 9, 2014  
4:00 pm CT**

Operator: Ladies and gentlemen, thank you for standing by. Good day and welcome to the WD-40

Company third quarter fiscal year 2014 earnings conference call. Today's call is being recorded.

At this time all participants are in a listen-only mode.

At the end of the prepared remarks we will conduct a question and answer session. To register to ask a question at any time during this call press Star 1 on your telephone keypad. Please make sure your mute function is turned off to allow your signal to reach our equipment. If at any time during the conference you need to reach an operator please press Star 0 on your telephone keypad.

I would now like to turn the presentation over to the host for today's call, Ms. Wendy Kelley, Director of Investor Relations and Corporate Communications. Please proceed.

Wendy Kelley: Thank you. Good afternoon and thanks to everyone for joining us today. My name is Wendy Kelley and I'm very happy to be here today as one of WD-40 Company's newest tribe members. I look forward to interacting with many of you in my role as Director of Investor Relations and Corporate Communications.

On the call today are WD-40 Company's President and Chief Executive Officer Garry Ridge and Vice President and Chief Financial Officer Jay Rembolt. Following their prepared remarks the operator will come back on the line for the Q&A portion of the call.

Before we get started let me remind you that our earnings press release and current quarter corporate presentation are available on our investor relations website at [investor.wd40company.com](http://investor.wd40company.com). A replay of today's webcast will also be made available at that location shortly after this call.

As a reminder, today's call includes forward-looking statements about our expectations for the company's future performance. Of course actual results could vary materially. The company's expectations, beliefs, and projections are expressed in good faith but there can be no assurance that they will be achieved or accomplished. Please refer to the risk factors detailed in our SEC filings for further discussion.

Finally, for anyone listening to a taped or webcast replay or reviewing a written transcript of this call, please note that all the information presented is current only as of today's date, July 9, 2014. The company disclaims any duty or obligation to update any forward-looking information whether as a result of new information, future events, or otherwise. With that I'd now like to turn the call over to Garry.

Garry Ridge: Good day. Thanks Wendy and thanks for joining us on today's conference call. Today we reported net sales of \$95.7 million for the third quarter of fiscal 2014, an increase of 3% over last year and the highest revenue quarter in our company history. Year to date net sales were \$285.4 million, an increase of 4% over the prior year. Net income for the third quarter was \$10.4 million compared to \$10.3 million last year. Diluted earnings per share for the third quarter was 69 cents compared to 66 cents last year.

Year to date net income was \$32.2 million, an increase of 2% over the prior year period, and year to date diluted earnings per share were \$2.10, up 4% from \$2.01 in the prior fiscal year.

Before we focus on the sales results let's take a moment to review the progress we have made towards our strategic initiatives. Strategic initiative number one is to grow WD-40 multi-use product. Our goal under this first initiative is to take the WD-40 multi-use product to more places for more people with more uses.

In line with this initiative, sales of WD-40 multi-use product increased 3% in the third quarter compared to last year. We grew multi-use product sales 14% in the EMEA segment and 11% in our Asia Pacific segment.

Multi-use product sales decreased 8% in the Americas segment probably due to lower sales activity in Canada and U.S. Sales of our multi-use product were down by 9% in the U.S. and 17% in Canada and I'll discuss the drivers of these changes in sales when I review the segment results later.

Strategic driver number two is to grow the WD-40 specialist product line. Our goal under this initiative is to leverage the power of the shield to develop new products and categories with their identified geographies and platforms.

The WD-40 specialist product line continued to perform well with greater than double digit growth across all three segments and with a global growth rate of 27% over the prior year third quarter. We continue to work on new formulations and delivery systems for future WD-40 specialist products. We see WD-40 specialist as a sustainable revenue and earnings growth engine for many years to come.

Strategic driver number three is to broaden our product and revenue base. Our goal under this initiative is to leverage the strengths within our company to derive revenues from new sources outside our flagship WD-40 brand.

We continue to make excellent progress with the new SKUs we launched earlier this year under our 3-in-One brand. We've been promoting the new products throughout many trade shows, sponsorships, media coverage, and print and media online.

Strategic driver number four is to attract, develop, and retain outstanding tribe members. We welcomed 10 new tribe members during the third quarter and 36 year to date.

During the quarter we conducted our biannual employee engagement survey and we are delighted with the results. Our employee engagement score is a reflection of our tribe's dedication to the company and is the envy of many organizations at 93.7%.

I would like to share details from a couple of the questions we asked in our survey. 97.6% of our global tribe members answered the question they love to tell people they work at WD-40 Company and 99.7% of our global tribe members told us they understand how their job contributes to achieving WD-40 Company's goals.

When I see results like these it's clear to me why our tribe consistently excels at achieving what we have set out to accomplish. It's so true that it's all about our people.

In addition our organization was recently recognized for the fourth consecutive year by World Blue as one of the most democratic workplaces for high levels of innovation, accountability, and transparency.

And finally, we conducted our third year of our leadership lab in June. This program was developed in support of our bench building initiatives and to assist the next generation of leaders within the organization to develop talents and skills for both professional growth and the company's performance. To all our tribe members listening to us all around the world today, thank you for your commitment to our values.

Strategic driver number five is operational excellence. This initiative includes continuous improvement of optimizing resources, systems, and processes in order to help offset rising costs and protect our gross margin.

Operational excellence is also important to meet the ever-increasing customer and regulatory requirements. During the third quarter we completed our initial transition of a major upgrade of our ERP system in EMEA. The operational enhancements associated with this upgraded ERP system are expected to significantly improve back office operations within the segment.

We also continue to make progress on the new global human resource information system which we expect to go live by the end of this fiscal year. That completes the update on strategic drivers so let's move on to the details of the third quarter, year to date results starting with sales.

Sales in the multi-purpose maintenance product category accounted for 89% of our global sales in the third quarter with the category sales up 3% in the third quarter and up 6% year to date. Products under this category include the brands of WD-40 and 3-in-One as well as sales of the WD-40 by product line.

By trading block, sales of multi-purpose maintenance products in the third quarter were down 7% in the Americas, up 13% in EMEA, and up 11% in Asia Pacific compared to the prior year period. Year to date sales of the multi-purpose maintenance products are up 3% in the Americas, up 11% in EMEA, and down 2% in Asia Pacific.

Home care and cleaning products category accounted for 11% of global net sales in the third quarter with sales down just 1% in the third quarter and are down 8% year to date. Brands under this category include Spot Shot, 2000 Flushes, Carpet Fresh, and No Vac, 1001, X-14, and Lava and Solvol.

By trading block, sales of home care and cleaning products in the third quarter were up 1% in the Americas, down 9% in EMEA, and down 1% in Asia Pacific. Year to date sales of our home care and cleaning products were down 10% in the Americas, down 5% in EMEA, and down 5% in Asia Pacific.

Now on to our results by segment starting with the Americas. Sales in the Americas segment decreased 5% in the quarter but were up 1% year to date. The segment accounted for 47% of global sales in the third quarter as compared to 51% in the prior year.

Total U.S. sales were down 5% in the quarter and up 2% year to date. Multi-purpose maintenance product sales in the U.S. decreased 7% in the third quarter and this was primarily due to timing of promotional activities.

Home care and cleaning product sales in the U.S. increased 4% in the third quarter driven by increased sales of 2000 Flushes and Spot Shot which each increased by 5%. Year to date home care and cleaning product sales declined 8%.

As a reminder, home care and cleaning products, particularly those in the U.S., are considered harvest brands that continue to generate positive cash flows but are becoming a smaller part of the business as net sales of multi-purpose maintenance products grow through the execution of our strategic initiatives.

Sales in Latin America were up 3% in the third quarter and are up 7% year to date driven by the higher multi-use product sales throughout the region. Now to Canada, sales in Canada decreased 22% in the third quarter and 17% year to date. These declines are primarily due to some unusual short term factors that negatively impacted sales including Canada encountering the coldest winter in 35 years as well as some challenges to distribution in the mass retail channels.

Let's now go over the ocean and visit EMEA segment which includes Europe, the Middle East, and Africa. Sales in the EMEA segment were up 12% in the third quarter and are up 10% year to date. These sales increases in the third quarter were primarily driven by favorable impact of changes in foreign currency exchange rates.

In order to remove these foreign currency impacts on sales we also calculate sales on a constant currency basis. This means that we calculate sales for the current period using the exchange rates that were in effect for the corresponding period of the prior fiscal year.

On a constant currency basis sales in the EMEA segment would have increased 2% in the third quarter and are up 6% year to date. This segment accounted for 38% of global sales in the third quarter compared to 35% in the prior year quarter.

We sell into EMEA through a combination of direct sales operations in certain countries as well as through exclusive marketing distributors in other countries. Sales in our EMEA direct market were up 13% in the third quarter and are up 6% year to date. The sales growth in both periods was primarily due to the favorable impact of foreign currency exchange rates.

In local currencies sales in the direct markets increased 3% in the third quarter due to increased sales of the WD-40 specialist product line stemming from new distribution and the continued

growth also of the WD-40 multi-use product. The direct markets accounted for 59% of EMEA's total sales in the third quarter which is essentially flat compared to the prior year period.

We sell through exclusive marketing distributors in eastern and northern Europe and the Middle East, India, and Africa with virtually all sales consisting of the WD-40 brand. Our distributor markets in total were up 11% in the third quarter and are up 16% year to date. The sales growth in the third quarter was primarily due to the favorable impact of changes in foreign currency exchange rates.

In local currency sales the distributor markets increased 1% for the third quarter. The distributor markets accounted for 41% of EMEA's total sales in the third quarter which was essentially flat compared to the prior year period.

Now let's take a look at the Asia Pacific segment. Sales in the Asia Pacific segment were up 10% in the third quarter and down 2% in the year to date. Changes in foreign currency exchange rates this time had an unfavorable impact on sales in the third quarter and year to date. On a constant currency basis sales in the Asia Pacific segment were up 13% in the third quarter and 2% year to date. The segment accounted for 15% of global sales in the third quarter and 14% year to date.

Sales in Australia decreased 7% in the third quarter and were down 3% year to date. Although reported sales decreased period by period to period sales increased on a constant currency basis due to the ongoing growth of our base business.

Sales in China increased 24% in the third quarter and 7% year to date. The sales increase in the third quarter was attributed to the continued increase in promotional activity. We continue to focus on the long term opportunities in China but we expect to experience a lot of volatility on the way due to the timing of promotional programs, the building of ongoing distribution, and shifting economic patterns and varying industrial activities.

Sales throughout the rest of Asia increased 17% in the third quarter and are down 6% year to date. The increased sales in the third quarter were primarily driven by the backlog of customer orders at the end of the second quarter that were able to ship early in the third quarter.

Year to date sales in this region have been negatively impacted this year during the transition period of our marketing distributor in Indonesia. That's it for the sales update. I'm going to take a break and I'm going to hand over to Jay who will review the financials.

Jay Rembolt: Garry thank you. In addition to the information presented on the call, we suggest that you review our Form 10-Q for the period ended May 31 which we'll file tomorrow.

First let's review our 50/30/20 rule. Those are the measures we use to guide our business. As you may recall, the 50 represents gross margin which we target to be at or above 50% of net sales. The 30 represents our cost of doing business which is our total operating expenses excluding depreciation and amortization. Our target for that is 30% or less.

And finally the 20 which represents EBITDA, if our gross margin is at or above 50% and our cost of business is 30% or less, our EBITDA will be at or above 20%. EBITDA is earnings before interest, taxes, depreciation, and amortization. The descriptions and reconciliations of these non-GAAP measures are available in our 10-Q and in our investor presentation.

Now let's look at the gross margin or the 50 in our 50/30/20 rule. Gross margin in the third quarter was essentially flat coming in at 51.4% compared to 51.3% in the prior year.

The slight increase of 10 basis points in gross margin was driven by lower input costs as well as the impact of price increases and lower promotional discounts. These positive impacts were

partially offset by unfavorable impacts from foreign currency exchange rates and increased warehousing and transportation costs.

Our cost of products sold, looking at our input costs, we experienced a favorable impact of 110 basis points from our major input cost changes. This was driven by changes in the cost of petroleum based materials along with the lower cost of cans in our EMEA and Americas segments.

Changes in other input costs negatively impacted gross margin by 10 basis points. We consider and implement price increases on a country by country basis to help offset the impact from input cost increases.

Period over period our gross margin improved by 30 basis points as a result of price increases implemented over the past 12 months in both EMEA and Asia Pacific regions.

We also saw a gross margin improvement of 30 basis points driven by our reduced advertising and promotional discounts primarily associated with our home care and cleaning products in the Americas.

The cost of promotional activities such as sales incentives, trade promotions, and cash discounts that we give to our customers are recorded as a reduction to sales. The timing and magnitude of these may cause fluctuations in our gross margin period to period.

Changes in foreign currency exchange rates within our EMEA segment negatively impacted our gross margin by 70 basis points. In EMEA our cost of goods are sourced in pound sterling while revenues are generated in sterling, euros, and the U.S. dollar.

The value of the euro and the U.S. dollar both deteriorated versus the pound sterling. This caused revenues sourced in those currencies to be worth less than pound sterling thus resulting in a decrease in the gross margin.

Look at our warehousing and transportation costs primarily within our Americas segment had a negative impact on our gross margin of 50 basis points. This was driven in part by a specific promotion in the U.S. that started in the third quarter and will continue into the fourth quarter. That promotion includes a display configuration that has higher storage and transportation costs.

In addition, transportation costs were also increased due to higher fees associated with transportation disruptions caused by adverse weather conditions during the quarter.

Other impacts to gross margin for the quarter include sales mix and all other miscellaneous items. Combined, these factors had an unfavorable impact of 30 basis points.

The themes discussed for the quarter gross margin are similar to those for the year to date results. Gross margin year to date was 51.6% compared to 50.8% in the prior year. The increase of 80 basis points in gross margin was primarily attributable to the lower input costs along with the impact of price increases and lower promotional discounts.

Again these items were partially offset by the unfavorable impacts of warehouse and transportation costs, foreign currency exchange rate impacts, and unfavorable sales mix. That concludes the gross margin discussion. Now on to the 30 or our cost of doing business.

In both the third quarter of this fiscal year and last year the cost of doing business remained at 34%. Year to date the cost of doing business was 34% this fiscal year, up slightly from the 33% last year. While our goal is to have our cost of doing business at or below 30% of net sales, that

percentage may fluctuate due to changes in the timing of sales, the timing of expenses, as well as investments we elect to make for our future.

Year to date 71% of our cost of doing business came from three areas -- 39% related to people costs or the investments we make in our tribe; 19% from our investments in marketing, advertising, and promotion; and 13% in trade costs, the costs to get our product to our customers.

Now more details on our SG&A expenses. In the third quarter SG&A expense increased 5% to \$26.9 million. As a percentage of net sales, SG&A expense was 28.1% in the third quarter compared to 27.6% in the prior year. The increase in SG&A was primarily driven by higher professional service costs, increased freight costs, and the impacts from foreign currency exchange rate fluctuations.

Professional service costs increased by \$.8 million due to legal fees associated with certain litigation matters along with various regulatory compliance items and additional investments we have made to protect our intellectual property. When you're in 188 countries around the world, all with unique and different laws, intellectual property protection can become a bit challenging.

Brand protection is always a high priority and an investment that the company will continue to make in order to safeguard one of its most valuable assets, the blue and yellow can with the little red top.

Also contributing to the higher professional service fees during the quarter were some general consulting service costs associated with bringing online a new third party contract manufacturer and operational support for the system upgrade both occurring in EMEA.

Freight expense was up \$.3 million versus the prior period due to higher sales volumes and the shift in the size of customer shipments. In our third quarter last year we had a higher volume of

large shipments compared to this year. We gain efficiencies and realize savings when we can ship larger volume orders.

Finally, changes in foreign currency exchange rates had an unfavorable impact period to period, increasing our SG&A costs by about \$.6 million. These increases were partially offset by a \$.8 million decline in employee related costs primarily associated with lower bonus expense compared to the prior year.

Year to date SG&A was \$80.2 million versus \$74.9 million last year. As a percentage of net sales SG&A was 28.1% year to date compared to 27.2% in the prior year period. The year to date increase in SG&A was primarily driven by increased employee related expenses, higher professional service costs, increased freight, a higher level of travel and entertainment expenses, and a negative impact from foreign currency.

Advertising and sales promotion decreased 3% in the third quarter to \$6.5 million compared to the prior year. As a percent of sales A&P investment was 6.8% in the third quarter compared to 7.1% in the current - in the prior year.

The decrease in advertising and sales promotional expense was primarily associated with the lower level of promotional programs in the Americas. The lower advertising and sales promotion expense in the Americas was significantly offset by increased expenses in EMEA and Asia Pacific due to the increased promotional activities in both these regions.

Year to date advertising and sales expense was essentially flat at \$18.1 million compared to \$18 million in the prior year. Advertising and sales promotion expense as a percent of sales decreased to 6.3% from 6.5%. This slight change in advertising and sales promotion expense year to date was primarily due to the higher level of promotional activities in EMEA.

As a reminder, it is common for advertising and sales promotion expense to fluctuate period to period based on the type of marketing activity or the promotion we employ within any given period.

Amortization of our intangible assets increased to \$.7 million in the third quarter compared to \$.5 million in the prior year period. Year to date amortization was \$1.9 million compared to \$1.5 million last year. The increase in amortization is primarily due to the change in the remaining useful life of the 2000 Flushes trade name which was made in Q3 of last year.

Total operating expenses in the current year quarter were \$34 million versus \$32.8 million last year and operating income in the third quarter was \$15.1 million compared to \$15 million last year. Year to date total operating expenses were \$100.2 million versus \$94.4 million last year. Operating income year to date was \$47.1 million, up from the \$45.3 million last year.

EBITDA, the last of our 50/30/20 measures, was 17% of net sales in both the current and prior year quarter. Year to date EBITDA was 18% of net sales in both the current and prior year period. We target EBITDA at 20% of net sales but expect variations from time to time as sales, A&P investment, and other expenses fluctuate. Our EBITDA percentage again is also affected by investments we make for future growth.

Our interest in income and interest expense remained constant in the third quarter as compared to the prior fiscal year period. Net interest expense increased to \$.3 million year to date as a result of our increased borrowings on our line of credit.

Other net expense remained constant in the third quarter but increased \$.9 million year to date. The change was primarily due to the fluctuations in exchange rates for the pound sterling against the euro and the U.S. dollar. We recorded foreign currency exchange losses of \$.4 million in the current year compared to foreign currency exchange gains of \$.5 million last year.

The provision for income taxes in the third quarter was \$30.4 million versus \$30.6 million in the prior year. The slight decrease in rate was driven by an increase in the domestic production deduction in the current year quarter. Year to date the provision for income taxes was 30.6% in both the current and prior year periods.

Net income in the third quarter was \$10.4 million versus \$10.3 million in the prior year quarter. Changes in foreign currency exchange rates favorably impacted the translation of our results by \$.3 million.

Our third quarter results translated at last year's exchange rates or what we would term constant currency basis would have produced net income of \$10.1 million versus the \$10.4 million this year.

Diluted earnings per common share were 69 cents in the third quarter compared to 66 cents in the prior fiscal quarter. Diluted shares outstanding decreased from 15.6 million shares to 15.1 million shares. And year to date net income was \$32.2 million versus \$31.7 million in the prior year. Changes in foreign currency exchange rates did not have a material effect on the translation of our results year over year.

Diluted earnings per common share were \$2.10 year to date compared to \$2.01 in the prior fiscal year period with diluted shares outstanding decreasing from 15.7 million to 15.2 million shares this year.

A look at our balance sheet at May 31, our balance sheet continues to remain solid as our cash and term deposits exceed our debt. As of May 31 our cash and cash equivalents were \$44.9 million and we had \$45.4 million in short term investments which consist of term deposits and callable time deposits held at money center banks.

The current portion of debt under our existing line of credit was \$83 million, up from the \$73 million in the second quarter of this year. The \$10 million increase in the line of credit balance during the third quarter was primarily used for share repurchase activity.

As for our capital allocation, we continue to focus on returning capital to shareholders through regular dividends and share repurchases. Regarding the dividend on June 24, the board of directors declared a quarterly cash dividend of 34 cents per share payable July 31, 2014 to stockholders of record at the close of business on July 11, 2014. Based on today's closing price of \$76.11, the annualized dividend yield would be 1.8%.

As for our share repurchases, we acquired approximately 111,000 shares of our stock at a total cost of \$8.2 million during the third quarter. These shares were acquired under our latest share repurchase plan approved by the board of directors in June of 2013.

It provides authorization to acquire up to \$60 million of the company's outstanding shares through the plan's end date of August 2015. To date we have repurchased approximately 474,000 shares at a total cost of \$33.2 million under this share repurchase plan. We continue to expect to be executing on this program throughout the remainder of the year.

Well that includes a financial overview. More information will be available on Form 10-Q which we'll file tomorrow. And thanks so much and now back to Garry.

Garry Ridge: Well thank you Jay. We remain cautiously optimistic about several macroeconomic factors. We expect to see continued growth driven by our strategic initiatives which should help drive a solid end to this fiscal year. We hope that we will continue to see relatively stable input costs and that our efforts to improve operations and sourcing will continue to benefit our gross margin and operating results.

Given this outlook and the proximity to the year end, we have upgraded our guidance from that we shared with you in April. The following fiscal year 2014 guidance does not include any acquisitions or divestitures and assures - assumes that the foreign currency exchange rate will remain close to their recent levels.

So for the year we expect our fiscal year net sales results to be in the range of \$380 million to \$387 million or a growth of between 3% and 5%. We now project our gross margin to be close to 51.5%. We expect our global advertising and promotional investment to be in the range of 6% and 7% of net sales.

We therefore expect net income of between \$41 million and \$43 million which will achieve a diluted EPS of between \$2.70 and \$2.83 assuming 15.2 million weighted average shares outstanding.

In summary, what did you hear from us today? You heard we increased sales by 3% in the third quarter. You heard that consistent with our strategic initiatives we saw double digit growth of sales of our WD-40 specialist product line within all three of our trading blocks. You heard that we grew gross margin by ten basis points.

You heard that we grew diluted earnings per share to 69 cents and returned capital to shareholders through the purchase of approximately 111,000 shares at a cost of \$8.2 million. And you heard that our outlook is cautiously optimistic and that we're updating our full year guidance.

In closing, as I do, I'd like to share a quote with you from - this time from (Walter Belly). "The mightiest works have been accomplished by men who have kept their ability to dream great dreams." Thank you for joining us today. We'll be pleased to now open the conference call to any questions.

Operator: Ladies and gentlemen, if you would like to register a question please press Star 1 on your telephone keypad. Please make sure your mute function is turned off to allow your signal to reach our equipment. If your question has been answered and you would like to withdraw your registration please press Star 2 on your telephone keypad. One moment please for the first question. Our first question comes from the line of Liam Burke.

Liam Burke: Good afternoon Garry, good afternoon Jay.

Garry Ridge: Good afternoon Liam.

Jay Rembolt: Hi Liam.

Liam Burke: Garry, you talked about timing of promotional activities in the Americas and how it affected third quarter sales. And then Jay alluded to the additional inventory carry on these - related to these promotions. Are these in traditional WD-40 brands or are they in specialist or they both?

Garry Ridge: The majority of them Liam would be in traditional WD-40 brand of the multi-use product. And we're seeing promotional activity spread over both the third and the fourth quarter, more so in the fourth.

Liam Burke: And - I'm sorry.

Garry Ridge: More so in the fourth than in the third.

Liam Burke: Okay. You mentioned an ERP implementation in Asia Pacific. Do you anticipate any kind of expense lag or any kind of operational setback there?

Garry Ridge: It was actually in EMEA Liam.

Liam Burke: I'm sorry, EMEA.

Garry Ridge: And it's the - it was the planned first stage of the execution of the new ERP system that we've been working there for a couple of years now. We're phasing in the actual implementation. We're in phase one. It went as planned. No we don't expect any additional material costs from that. It will take us about nine months to have it completely embedded but so far, so good.

Liam Burke: Thank you. And Jay on the cash flow statement it was down year over year on the working capital line specifically current liabilities. Is there anything unusual in there or is it just timing?

Jay Rembolt: It's really just timing. We would expect to see it kind of normalize and kind of at our average.

Liam Burke: Okay great. Thank you.

Jay Rembolt: Thank you.

Operator: And we'll take our next question from (Linda Bolton Wisser) with (B. Riley).

(Linda Bolton Wisser): Hi, so I'm sorry if you explained this with the last question but I'm not sure I understand about the promotional activity in the Americas. Because on the one hand you said that displays or transporting them or something hurt your gross margin and yet there was no promotional activity that really drove your sales. So I'm a little confused about that. Do you expect that sales uptick to happen next quarter as a result of that cost to have those promotions or can you explain a little bit more?

Garry Ridge: Yes (Linda), yes the answer is yes. What Jay was speaking about was the transport and warehousing activities to get the product into our distribution centers, not the transport and warehouse activities to get it to our customers.

And also some of the product that we're building there has a higher cost because of the display configurations that we have, some of which expenses are expensed earlier than later. So yes we would expect that as in line with our guidance we would have a reasonably solid fourth quarter particularly in the U.S.

(Linda Bolton Wiser): Great, thank you. And then can you just explain a little bit more about Canada? And can you clarify, did you say Canada MPMP sales were down 78% in the quarter? Is that correct?

Garry Ridge: No I think it was 17%.

(Linda Bolton Wiser): Oh 17%, okay. So Canada is about I don't know, \$16 million a year or \$4 million a quarter of sales.

Garry Ridge: Okay.

(Linda Bolton Wiser): So I guess I'm just wondering, you know, so if it was down 17% in the quarter, I mean, that's not a huge variance on sales because of Canada. I mean, it affected the quarter but not in a large way.

Garry Ridge: Yes it's event driven. Canada just had the worst winter in 35 years. And, you know, without pushing the random excuse generator and blaming weather, you know, that did cause some distribution issues and some, you know, people just weren't going to stores. In fact in the quarter it was down 22% and down 17% year to date.

The other thing that impacted Canada and this has been out there for some time now, we did a - in the retail trade channel we did a voluntary recall of our smart store delivery system due to some regulations in Canada and that happened earlier on this year.

So we are missing the sales of smart store in the retail channel. We're still selling it through the industrial trade channel. So it will take us a little time to lap that. But that's really the two main impacts that happened in Canada.

(Linda Bolton Wiser): Okay great, and then if I look at your change in the guidance for the year with the raising of the EPS guidance and I get the gross margin guidance, I actually had - I think the consensus had the gross margin around 51.5 already for the year. So when we look at our models I guess to raise EPS we would lower maybe the A&P and/or the SG&A expense in the fourth quarter. Am I thinking of that the right way?

Garry Ridge: Well I think two things will happen. Where we end up with sales and we have kind of narrowed that a little bit. But correct, we would hope that gross margin would have a positive impact and we would then, you know, we expect if you look at the training of A&P that may come down a little bit.

But I think those are the levers. We feel like we'll have a reasonably solid year on year sales growth. We see margin improving and we see good management of our A&P expenses and we think we're well positioned to step up next year in a pretty fine way.

(Linda Bolton Wiser): Okay great. And then just one final question on WD-40 specialist line. You know, you said strong growth I think you said up 27% in the quarter. Is that right?

Garry Ridge: That is accurate.

(Linda Bolton Wiser): So that's strong but I think last quarter you said it had kind of doubled year over year.

Garry Ridge: That's accurate also.

(Linda Bolton Wiser): Okay. So, I mean, it is kind of slowing or is that just a quarter by quarter fluctuation?

Garry Ridge: Oh this is going to bounce around for a while and there is no way it's slowing. We get sell in then we get new customers. And then of course as we introduce new categories we're going to get spurts but we are very, very happy with specialist.

As I said in my remarks, we're confident that specialist will be a solid revenue and earnings machine for us for many years to come as we execute the program in a deliberate way across the markets of the world at a time that is appropriate.

(Linda Bolton Wiser): Okay, thank you very much.

Garry Ridge: Thank you (Linda).

Operator: Thank you. Our next question comes from the line of Daniel Rizzo with Sidoti & Company. Please proceed with your question.

Daniel Rizzo: Just one quick follow-up on the specialist. It was up 27% in the quarter. Was there any one region that outperformed the others or maybe you sort of said this but specifically how is it doing in the Americas?

Garry Ridge: Very fine. It is very, you know, we're comfortable that it is doing fine in all areas that we have launched it. And, you know, the growth depends too on what we launch into what areas and what regions at what time but overall we're very comfortable.

Daniel Rizzo: But is, I mean, in the quarter was there any one region that outperformed the others?

Garry Ridge: No not necessarily. And again, you know, it's off the basis or the base that it's performing off differs from region to region. So no, we think overall that we're going to get fluctuations region to region. We don't talk about what is going on in each region, we're looking at the overall growth and we're very happy with 27% growth quarter over quarter.

Daniel Rizzo: And then and one more quick question. You indicated on a call and in a press release that there was higher expenses related to I guess protecting intellectual property rights. Is that - I assume that's not something new, that's kind of a thing that has been happening.

Garry Ridge: For many, many, many years. We have a robust intellectual property protection program that has been put in place for many years. There hasn't been really any changes to it other than we've just got more activity.

But, you know, intellectual property protection to us is a real and focused activity and as I said, we just continue to do it. When you're in 188 countries around the world as Jay has mentioned with different laws and different regulations, it takes some work.

Daniel Rizzo: The fact that you mentioned it for this quarter, does that mean it has upticked - it has been more of an issue recently versus in the past or is it just, I mean, has it pretty much been the same?

Garry Ridge: You know, the run rate is about the same but we mention it because it's a very, very important part of our business and we actually, you know, want people to know that we are investing in protecting one of if not the most important asset we have in the company.

Daniel Rizzo: All right thank you very much.

Garry Ridge: You're welcome.

Operator: Our next question comes from the line of Jeff Zekauskas with J.P. Morgan. Please proceed with your question.

Jeff Zekauskas: Hi, good afternoon.

Garry Ridge: Hey Jeff.

Jeff Zekauskas: Did volumes grow in the quarter?

Garry Ridge: Overall not much.

Jeff Zekauskas: So they were slightly positive.

Garry Ridge: Slightly positive yes. We haven't had any pricing really but the two - the other impact was the exchange rates. But certainly volumes are growing year over year and we will - we expect that we will have volume growth, you know, for the full year definitely.

Jeff Zekauskas: Because I thought that there was a positive price benefit and I thought there was a positive exchange - positive price benefit and I thought that the sales not adjusted for currency were flat and so that's why I would have thought that volumes were down a little bit.

Garry Ridge: Jay.

Jay Rembolt: There might be a slight decrease in volumes. You know, you're right, there was a slight impact from the price increases and you're right, adjusted for currency we're flat, you know, period on period. On the quarter year to date, you know, we're up quite a bit. So I think yes.

Garry Ridge: But the other side of that too Jeff is we actually measured consumable ounces and depending on where those ounces are sold, you know, that tells us - reflects our volume growth. So, you know, volume growth for the year is definitely up in ounces across the globe.

Jeff Zekauskas: Right. So in the fourth quarter of last year, or let me try this a different way. Does your management compensation in the fourth quarter change a lot as to whether you report 270 or 283? Or does it not matter in terms of bonus compensation?

Jay Rembolt: Yes well, I mean, depending on where we end up according to our targets, we will have an impact in the fourth quarter, you know, either positive or negative if we exceed or miss our targets in any significant way.

Jeff Zekauskas: Right because last year in the fourth quarter you really had a step up in SG&A expense.

Jay Rembolt: Yes we did as we hit those higher targets of last year's growth rate, yes.

Jeff Zekauskas: So do you expect your SG&A expenses in the fourth quarter to be up or down year over year?

Jay Rembolt: We haven't shared that.

Jeff Zekauskas: Shared that, okay. Well can we...

Garry Ridge: I would just add to that Jeff. We wouldn't expect the change in compensation to be as dramatic this year as it was last year.

Jeff Zekauskas: Right. Are you selling your home care business or are you not selling it?

Garry Ridge: At this stage we're not selling it. I mean, we are selling the products but it's not long term part of our business. We looked at about a year and a half ago, we did quite an in-depth valuation of what we should do with it and the outcome was we can generate more cash from it over time.

If we sold anything it would primarily be that in the U.S. and only some of the brands. We're quite happy with what we're doing with 1001 in the UK at this time and also in Australia. So we have stabilized that business now. And, you know, as our other part of our other business grows it becomes less and less.

The other thing is we made a very deliberate decision some time ago to redirect all of the R&D and product development away from that group and pour it into specialist and bike which is now paying benefits as we continue to grow specialist.

Jeff Zekauskas: Will Canada come back in the fourth quarter?

Garry Ridge: Canada will have a disappointing year only because of the events so far but Canada will come, you know, it will be a reasonable quarter we think. But we'll see Canada, you know, bounce back next year as we start to launch some more new product and we get over some of the challenges they have had this year.

Jeff Zekauskas: Because of the timing of promotions, do you expect the U.S. business to come back in the fourth quarter?

Garry Ridge: Yes.

Jeff Zekauskas: Okay thank you very much.

Garry Ridge: Thanks Jeff, nice to hear you.

Jeff Zekauskas: Likewise.

Operator: Ladies and gentlemen, as a reminder to register to ask a question please press Star 1 on your telephone keypad. Our next question comes from the line of Joe Altobello with Oppenheimer. Please proceed with your question.

Joe Altobello: Thanks, hey guys, good afternoon.

Garry Ridge: Hey Joe.

Joe Altobello: I just want to kind of dive into the top line. I mean, obviously you guys don't give quarterly guidance but it was a little bit lighter than we were looking for in the quarter. And it sounds like based on your commentary Garry that by and large the quarter was as expected in terms of where you guys were at but for Canada and obviously Canada is not a big piece of your business.

So I'm just curious, one, is that a fair way to look at how the quarter played out? And then two, I mean, obviously you're now looking for 3% to 5% top line growth versus 4% to 8%. So it sounds like something changed in the quarter. We're trying to figure out is it the U.S. because it sounds

like it was more a timing issue this quarter but it sounds like there were other underlying issues there.

Garry Ridge: Well let me back up a little bit. You asked me a lot of questions there rolled into one. I think that we would have liked a little stronger quarter in revenue. It kind of patted out a little bit towards the end.

And it's not - and really it was sales falling from quarter to quarter as they do so nothing we're really worried about. So I think that if things would have come into the third quarter we would have had a stronger one and we might have had a little higher overall expectation. So I think just as we've got through the year we're fine.

I think also we're still, you know, flipping through some of the changes we made in Asia and then we've also had that little upset in Canada. So if you roll those things together, yes I think we could have expected a little higher overall revenue growth in the full year than we're going to get now although it's going to be a great year.

The quarter was the largest quarter in the sales history of the company. We're very much looking forward to our first \$100 million quarter and we'll publicly open a bottle of lemonade when we do that. But, you know, I think overall we're okay.

Joe Altobello: Okay but it wasn't just timing because you did lower the full year guidance so it wasn't just pushing revenue from 3Q to 4Q for example.

Garry Ridge: It pushes it out the other end as well.

Joe Altobello: Okay thank you.

Garry Ridge: You know, I think that's really where it sits at the moment. And once you get through three quarters you've got a better feel of what the whole year is going to be. And again, you know, we're not dumb enough to run our business in 90 day intervals.

Joe Altobello: Good to hear. Two other questions I guess on new products. Any update on bike, number one? And number two, you know, what's your thoughts on rolling out additional products beyond bike? I mean, do you want to see how bike does first or are you going to be more aggressive in fiscal '15 on that front?

Garry Ridge: Bike, we'll be launching bike in Europe at (Interbike) coming up in a couple of weeks time. We're very happy with the motorbike business that we have launched in Europe. So and we'll be expanding distribution of our overall bike products as we move further into this fourth quarter and next year.

We're in the bike business to stay. It has got a lot of positives in that it helps us engage a very large group of passionate end users particularly helping us get into the youth area.

We think any of that recreational area where lubrication and protection and cleaning is important helps us kind of replace that connection you had Joe when you were first introduced to WD-40 when you had your hair down to the bonnet of a car with your dad. So that doesn't happen anymore and we are - at least not in the U.S. It certainly does happen in some of the more emerging markets.

But we believe that this is a very strategic and important step in continuing to enhance the relevance of the brand across many generations. So and we've seen that evidence already. The bike activity has been very positive towards the brand.

Joe Altobello: Okay and in terms of the cadence in new products?

Garry Ridge: Yes look, in the bike range of products it will probably remain fairly stable but in specialist which is really the other side we will be continuing for many years to come to introduce categories of products.

We're just shipping WD-40 specialist lawn and garden in Australia in the next month or so. So, you know, we're testing that down there as you know. We're happy so far with the response we're getting. We've done motorbike in the UK. We have extended the range of products in specialist in the U.S.

So, you know, but this is deliberate. You know, we're not going to be like a blind dog in a meat house here. This is a very valuable shield and we will not slap it on anything. It will be deliberate and controlled and ensuring that we continue to keep our promise to our end users which is delivering above expectation performance at great value.

Joe Altobello: When could we see lawn and garden in the U.S. do you think?

Garry Ridge: I don't know, it depends on how it proves out in Australia.

Joe Altobello: Okay great, thank you guys.

Garry Ridge: See you Joe.

Operator: Ladies and gentlemen, that does conclude our allotted time for questions as well as our conference call for today. We thank you for your participation and ask that you please disconnect your line. Thank you.

END