WD 40 CO
Form 10-Q
April 09, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-06936

WD-40 COMPANY

(Exact name of registrant as specified in its charter)

Delaware	95-1797918
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)
1061 Cudahy Place, San Diego, California	92110
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (619) 275-1400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant’s common stock, par value $0.001 per share, as of April 2, 2014 was 14,977,975.

WD-40 COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended February 28, 2014

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Item 1. Financial Statements

WD-40 COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share and per share amounts)

	February 28, 2014	August 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 40,962	$ 53,434
Short-term investments	45,021	37,516
Trade accounts receivable, less allowance for doubtful accounts of $717 and $540 at February 28, 2014 and August 31, 2013, respectively	63,042	56,878
Inventories	34,143	32,433
Current deferred tax assets, net	5,678	5,672
Other current assets	9,398	6,210
Total current assets	198,244	192,143
Property and equipment, net	9,054	8,535
Goodwill	95,522	95,236
Other intangible assets, net	25,056	24,292
Other assets	3,157	2,858
Total assets	$ 331,033	$ 323,064
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 22,474	$ 19,693
Accrued liabilities	19,845	16,562
Revolving credit facility	73,000	63,000
Accrued payroll and related expenses	9,372	17,244
Income taxes payable	2,319	1,146
Total current liabilities	127,010	117,645
Long-term deferred tax liabilities, net	24,455	24,011

Deferred and other long-term liabilities	1,941	1,901
Total liabilities	153,406	143,557
Shareholders' equity:		
Common stock authorized 36,000,000 shares, $0.001 par value; 19,462,926 and 19,392,979 shares issued at February 28, 2014 and August 31, 2013, respectively; and 15,037,999 and 15,285,536 shares outstanding at February 28, 2014 and August 31, 2013, respectively	19	19
Additional paid-in capital	135,373	133,239
Retained earnings	225,860	214,034
Accumulated other comprehensive income (loss)	1,387	(5,043)
Common stock held in treasury, at cost 4,424,927 and 4,107,443 shares at February 28, 2014 and August 31, 2013, respectively	(185,012)	(162,742)
Total shareholders' equity	177,627	179,507
Total liabilities and shareholders' equity	$ 331,033	$ 323,064

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share amounts)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2014	2013	2014	2013
Net sales	$ 94,184	$ 86,712	$ 189,725	$ 181,976
Cost of products sold	45,626	42,586	91,494	90,123
Gross profit	48,558	44,126	98,231	91,853
Operating expenses:				
Selling, general and administrative	26,651	23,956	53,350	49,285
Advertising and sales promotion	6,001	5,270	11,616	11,337
Amortization of definite-lived intangible assets	654	465	1,246	931
Total operating expenses	33,306	29,691	66,212	61,553
Income from operations	15,252	14,435	32,019	30,300
Other income (expense):				
Interest income	158	195	289	257
Interest expense	(226)	(176)	(441)	(301)
Other (expense) income, net	(229)	535	(443)	587
Income before income taxes	14,955	14,989	31,424	30,843
Provision for income taxes	4,638	4,528	9,625	9,438
Net income	$ 10,317	$ 10,461	$ 21,799	$ 21,405
Earnings per common share:				
Basic	$ 0.67	$ 0.67	$ 1.42	$ 1.36
Diluted	$ 0.67	$ 0.66	$ 1.41	$ 1.35
Shares used in per share calculations:				
Basic	15,202	15,585	15,241	15,639
Diluted	15,272	15,679	15,319	15,744
Dividends declared per common share	$ 0.34	$ 0.31	$ 0.65	$ 0.60

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2014	2013	2014	2013
Net income	$ 10,317	$ 10,461	$ 21,799	$ 21,405
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,831	(4,812)	6,430	(3,777)
Total comprehensive income	$ 12,148	$ 5,649	$ 28,229	$ 17,628

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited and in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Equity
Balance at August 31, 2013	19,392,979	$ 19	$ 133,239	$ 214,034	$ (5,043)	4,107,443	$ (162,742)	$ 179,507
Issuance of common stock upon settlements of stock-based equity awards	69,947		(172)					(172)
Stock-based compensation			1,479					1,479
Tax benefits from settlements of stock-based equity awards			827					827
Cash dividends ($0.65 per share)				(9,973)				(9,973)
Acquisition of treasury stock						317,484	(22,270)	(22,270)
Foreign currency translation adjustment					6,430			6,430
Net income				21,799				21,799
Balance at February 28, 2014	19,462,926	$ 19	$ 135,373	$ 225,860	$ 1,387	4,424,927	$ (185,012)	$ 177,627

See accompanying notes to condensed consolidated financial statements.

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WD-40 COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended February 28,	
	2014	2013
Operating activities:		
Net income	$ 21,799	$ 21,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,849	2,438
Net gains on sales and disposals of property and equipment	(33)	(5)
Deferred income taxes	(335)	263
Excess tax benefits from settlements of stock-based equity awards	(820)	(528)
Stock-based compensation	1,479	1,369
Unrealized foreign currency exchange losses (gains), net	132	(822)
Provision for bad debts	174	382
Changes in assets and liabilities:		
Trade accounts receivable	(4,885)	(2,203)
Inventories	(1,387)	(4,075)
Other assets	(3,309)	(2,543)
Accounts payable and accrued liabilities	5,470	2,770
Accrued payroll and related expenses	(9,603)	1,204
Income taxes payable	2,744	2,610
Deferred and other long-term liabilities	32	58
Net cash provided by operating activities	14,307	22,323
Investing activities:		
Purchases of property and equipment	(1,991)	(1,151)
Proceeds from sales of property and equipment	171	70
Purchases of intangible assets	(1,776)	-
Purchases of short-term investments	(5,643)	(31,279)
Maturities of short-term investments	908	1,037
Net cash used in investing activities	(8,331)	(31,323)
Financing activities:		
Proceeds from revolving credit facility	10,000	5,000
Dividends paid	(9,973)	(9,441)
Proceeds from issuance of common stock	1,241	2,451
Treasury stock purchases	(22,270)	(12,414)

Excess tax benefits from settlements of stock-based equity awards	820	528
Net cash used in financing activities	(20,182)	(13,876)
Effect of exchange rate changes on cash and cash equivalents	1,734	(1,229)
Net decrease in cash and cash equivalents	(12,472)	(24,105)
Cash and cash equivalents at beginning of period	53,434	69,719
Cash and cash equivalents at end of period	$ 40,962	$ 45,614

See accompanying notes to condensed consolidated financial statements.

WD-40 COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. The Company

WD-40 Company ("the Company"), based in San Diego, California, is a global consumer products company dedicated to delivering unique, high value and easy-to-use solutions for a wide variety of maintenance needs of "doer" and "on-the-job" users by leveraging and building upon the Company's fortress of brands. The Company markets multi-purpose maintenance products – under the WD-40® and 3-IN-ONE® brand names. Currently included in the WD-40 brand are the WD-40 multi-use product and the WD-40 Specialist® and WD-40 BikeTM product lines. The Company launched the WD-40 Specialist product line in early fiscal year 2012 and currently sells this product line in various regions throughout the Americas, Europe, Middle East and Africa ("EMEA") and Asia-Pacific. The WD-40 Specialist product line has contributed to sales of the multi-purpose maintenance products since its initial launch. In the fourth quarter of fiscal year 2012, the Company developed the WD-40 Bike product line, which is focused on a comprehensive line of bicycle maintenance products that include wet and dry chain lubricants, heavy-duty degreasers, foaming bike wash and frame protectants that are designed specifically for the avid cyclist, bike enthusiasts and mechanics. The Company also markets the following homecare and cleaning brands: X-14® mildew stain remover and automatic toilet bowl cleaners, 2000 Flushes® automatic toilet bowl cleaners, Carpet Fresh® and No Vac® rug and room deodorizers, Spot Shot® aerosol and liquid carpet stain removers, 1001® household cleaners and rug and room deodorizers and Lava® and Solvol® heavy-duty hand cleaners.

The Company's brands are sold in various locations around the world. Multi-purpose maintenance products are sold worldwide in markets throughout North, Central and South America, Asia, Australia and the Pacific Rim, Europe, the Middle East and Africa. Homecare and cleaning products are sold primarily in North America, the United Kingdom ("U.K.") and Australia. The Company's products are sold primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets, sport retailers, independent bike dealers and industrial distributors and suppliers.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The August 31, 2013 year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

In the opinion of management, the unaudited financial information for the interim periods shown reflects all adjustments necessary for a fair statement thereof. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2013, which was filed with the SEC on October 22, 2013.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the 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. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

Foreign Currency Forward Contracts

In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency exchange rates. The Company's U.K. subsidiary, whose functional currency is Pound Sterling, utilizes foreign currency forward contracts to limit its exposure in converting forecasted cash balances denominated in non-functional currencies. The principal currency affected is the Euro. The Company regularly monitors its foreign currency exchange rate exposures to ensure the overall effectiveness of its foreign currency hedge positions. While the Company engages in foreign currency hedging activity to reduce its risk, for accounting purposes, none of its foreign currency forward contracts are designated as hedges.

Foreign currency forward contracts are carried at fair value, with net realized and unrealized gains and losses recognized currently in other income (expense) in the Company's condensed consolidated statements of operations. Cash flows from settlements of foreign currency forward contracts are included in operating activities in the condensed consolidated statements of cash flows. Foreign currency forward contracts in an asset position at the end of the reporting period are included in other current assets, while foreign currency forward contracts in a liability position at the end of the reporting period are included in accrued liabilities in the Company's condensed consolidated balance sheets. At February 28, 2014, the Company had a notional amount of $11.0 million outstanding in foreign currency forward contracts, which mature from March 2014 through June 2014. Unrealized net gains and losses related to foreign currency forward contracts were not significant at February 28, 2014 and August 31, 2013.

Long-lived Assets

The Company's long-lived assets consist of property and equipment and definite-lived intangible assets. Long-lived assets are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives. The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and/or its remaining useful life may no longer be appropriate. Any required impairment loss would be measured as the amount by which the asset's carrying amount exceeds its fair value, which is the amount at which the asset could be bought or sold in a current transaction between willing market participants and would be recorded as a reduction in the carrying amount of the related asset and a charge to results of operations. 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.

During the fourth quarter of fiscal year 2013, the Company recorded a non-cash, before tax impairment charge of $1.1 million to reduce the carrying value of the 2000 Flushes trade name intangible asset to its fair value. For additional details, refer to the information set forth in Note 5 – Goodwill and Other Intangible Assets.

Fair Value Measurements

Accounting Standards Codification 820, Fair Value Measurements and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company categorizes its financial assets and liabilities measured at fair value into a hierarchy that categorizes fair value measurements into the following three levels based on the types of inputs used in measuring their fair value:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or observable inputs that are corroborated by market data; and

Level 3: Unobservable inputs reflecting the Company's own assumptions.

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of February 28, 2014, the Company had no assets or liabilities that are measured at fair value in the financial statements on a recurring basis, with the exception of the foreign currency forward contracts. The Company's financial instruments include cash equivalents, short-term investments, trade accounts receivable, accounts payable, short-term borrowings and foreign currency exchange contracts. The carrying amounts of these financial instruments approximate their fair values due to their short-term maturities.

During the six months ended February 28, 2014, the Company did not record any significant nonrecurring fair value measurements for assets or liabilities in periods subsequent to their initial recognition. During the fourth quarter of fiscal 2013, the Company was required to make a nonrecurring fair value measurement related to the 2000 Flushes trade name intangible asset, for which an impairment charge of $1.1 million was recorded during that quarter. For additional details, refer to the information set forth in Note 5 – Goodwill and Other Intangible Assets.

Segment Information

The Company discloses certain information about its business segments, which are determined consistent with the way the Company’s Chief Operating Decision Maker organizes and evaluates financial information internally for making operating decisions and assessing performance. In addition, the Chief Operating Decision Maker assesses and measures revenue based on product groups. The Company is organized on the basis of geographical area into the following three segments:

- Americas segment consists of the U.S., Canada and Latin America;
- EMEA segment consists of countries in Europe, the Middle East, Africa and India; and
- Asia-Pacific segment consists of Australia, China and other countries in the Asia region.

Recently Adopted Accounting Standards

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities”. The objective of this updated guidance is to provide enhanced disclosures that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position. The new rules require companies to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position, as well as instruments and transactions subject to a netting arrangement. In January 2013, the FASB further issued ASU No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” to address implementation issues surrounding the scope of ASU No. 2011-11 and to clarify the scope of the offsetting disclosures and address any unintended consequences. In September 2013, the Company adopted ASU No. 2011-11 and the adoption of this new authoritative guidance did not have a material impact on the Company’s consolidated financial statement disclosures.

Recently Issued Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The new rules require companies to present in the financial statements an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. The Company is currently evaluating this updated authoritative guidance, but it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

Note 3. Inventories

Inventories consist primarily of raw materials and components, finished goods, and product held at third-party contract manufacturers. Inventories are stated at the lower of cost or market and cost is determined based on a first-in, first-out method or, for a portion of raw materials inventory, the average cost method. Inventories consisted of the following (in thousands):

	February 28, 2014	August 31, 2013
Product held at third-party contract manufacturers	$ 5,100	$ 3,790
Raw materials and components	3,646	4,597
Work-in-process	210	18
Finished goods	25,187	24,028
Total	$ 34,143	$ 32,433

Note 4. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

	February 28, 2014	August 31, 2013
Machinery, equipment and vehicles	$ 12,425	$ 12,035
Buildings and improvements	3,979	3,781
Computer and office equipment	3,518	3,389
Software	6,606	5,997
Furniture and fixtures	1,318	1,285
Land	296	283
Subtotal	28,142	26,770
Less: accumulated depreciation and amortization	(19,088)	(18,235)
Total	$ 9,054	$ 8,535

Note 5. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of tangible and intangible assets acquired. The carrying value of goodwill is reviewed for possible impairment in accordance with the authoritative guidance on goodwill, intangibles and other. The Company assesses possible impairments to goodwill at least annually during its second fiscal quarter and otherwise when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. In performing the annual impairment test of its goodwill, the Company considers the fair value concepts of a market participant and the highest and best use for its intangible assets. In addition to the annual impairment test, goodwill is evaluated each reporting period to determine whether events and circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value.

Intangible assets that are determined to have definite lives are amortized on a straight-line basis over their estimated useful lives and are evaluated each reporting period to determine whether events and circumstances indicate that their carrying amounts may not be recoverable and/or their remaining useful lives may no longer be appropriate.

Goodwill

The following table summarizes the changes in the carrying amounts of goodwill by segment (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance as of August 31, 2013	$ 85,545	$ 8,480	$ 1,211	$ 95,236
Translation adjustments	38	248	-	286
Balance as of February 28, 2014	$ 85,583	$ 8,728	$ 1,211	$ 95,522

During the second quarter of fiscal year 2014, the Company performed its annual goodwill impairment test. The annual goodwill impairment test was performed at the reporting unit level as required by the authoritative guidance. In accordance with ASU No. 2011-08, “Testing Goodwill for Impairment”, companies are permitted to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The Company performed a qualitative assessment of each reporting unit to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. In performing this qualitative assessment, the Company assessed relevant events and circumstances that may impact the fair value and the carrying amount of each of its reporting units. Factors that were considered included, but were not limited to, the following: (1) macroeconomic conditions; (2) industry and market conditions; (3) overall financial performance and expected financial performance; (4) other entity specific events, such as changes in management or key personnel; and (5) events affecting the Company’s reporting units, such as a change in the composition of net assets or any expected dispositions. Based on the results of this qualitative assessment, the Company determined that it is more likely than not that the carrying value of each of its reporting units is less than its fair value and, thus, the two-step quantitative analysis was not required. As a result, the Company concluded that no impairment of its goodwill existed as of February 28, 2014.

Definite-lived Intangible Assets

The Company's definite-lived intangible assets, which include the 2000 Flushes, Spot Shot, Carpet Fresh and 1001 trade names and the Belgium customer list, are included in other intangible assets, net in the Company's condensed consolidated balance sheets. The following table summarizes the definite-lived intangible assets and the related accumulated amortization and impairment (in thousands):

	February 28, 2014	August 31, 2013
Gross carrying amount	$ 36,698	$ 34,615
Accumulated amortization	(10,676)	(9,124)
Accumulated impairment of intangible assets	(1,077)	(1,077)
Translation adjustments	111	(122)
Net carrying amount	$ 25,056	$ 24,292

During the second quarter of fiscal year 2014, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") by and between Etablissements Decloedt SA/NV ("Etablissements") and WD-40 Company Limited. Since January 1998, Etablissements has acted as one of the Company's international marketing distributors located in Belgium where it markets and distributes certain of the WD-40 products. Pursuant to the Purchase Agreement, the Company acquired the list of customers and related information (the "customer list") from Establissements for a purchase consideration of $1.8 million in cash. The Company intends to use this customer list to begin soliciting and transacting direct sales of its products in Belgium. The Company began to amortize this customer list definite-lived intangible asset on a straight-line basis over its estimated useful life of five years in the second quarter of fiscal year 2014.

During the fourth quarter of fiscal year 2013, as part of the Company's ongoing evaluation of potential strategic alternatives for certain of its homecare and cleaning products, the Company determined based on its review of events and circumstances that there were indicators of impairment for the Carpet Fresh and 2000 Flushes trade names. Management accordingly performed the Step 1 recoverability test for these two trade names and based on the results of this analysis, it was determined that the total of the undiscounted cash flows significantly exceeded the carrying value for the Carpet Fresh asset group and that no impairment existed for this trade name as of August 31, 2013. However, the Step 1 analysis indicated that the carrying value of the asset group for the 2000 Flushes trade name exceeded its undiscounted future cash flows, and consequently, a second phase of the impairment test ("Step 2") was performed specific to the 2000 Flushes trade name to determine whether this trade name was impaired. The 2000 Flushes trade name failed Step 1 in the fourth quarter analysis primarily driven by changes in management's current expectations for future growth and profitability for the 2000 Flushes trade name as compared to those used in the previous Step 1 analysis performed in the third quarter of fiscal year 2013. In performing the Step 2 analysis, the Company determined the fair value of the asset group utilizing the income approach, which is based on the present value of the estimated future cash flows. The calculation that is prepared in order to determine the estimated fair value of an asset group requires management to make assumptions about key inputs in the estimated cash flows, including long-term forecasts, discount rates and terminal growth rates. In estimating the fair value of the 2000 Flushes trade name, the Company applied a discount rate of 11.3%, annual revenue growth rates ranging from negative 13.6% to positive 1.5% and a long-term terminal growth rate of 1.5%. Cash flow projections used were based on management's estimates of revenue growth rates, contribution margins and earnings before income taxes, depreciation and amortization (“EBITDA”). The discount rate used was based on the weighted-average cost of capital. The Company also considered the fair value concepts of a market participant and thus all amounts included in the long-term forecast reflect management’s best estimate of what a market participant could realize over the projection period. After taking all of these factors into consideration, the estimated fair value of the asset group was then compared to the carrying value of the 2000 Flushes trade name asset group to determine the amount of the impairment. The inputs used in the impairment fair value analysis fall within Level 3 of the fair value hierarchy due to the significant unobservable inputs used to determine fair value. Based on the results of this Step 2 analysis, the 2000 Flushes asset group’s estimated fair value was determined to be lower than its carrying value. Consequently, the Company recorded a non-cash, before tax impairment charge of $1.1 million in the fourth quarter of fiscal year 2013 to reduce the carrying value of the 2000 Flushes asset to its estimated fair value of $7.9 million.

An intangible asset valuation is dependent on a number of significant estimates and assumptions, including macroeconomic conditions, overall category growth rates, sales growth rates, cost containment and margin expansion and expense levels for advertising and promotions and general overhead, all of which must be developed from a market participant standpoint. While the Company believes that the estimates and assumptions used in such analyses are reasonable, actual events and results could differ substantially from those included in the valuation. In the event that business conditions change in the future, the Company may be required to reassess and update its forecasts and estimates used in subsequent impairment analyses. If the results of these future analyses are lower than current estimates, an additional impairment charge may result at that time.

In addition, there were no indicators of potential impairment identified as a result of the Company's review of events and circumstances related to its existing definite-lived intangible assets for the quarter ended February 28, 2014.

Changes in the carrying amounts of definite-lived intangible assets by segment for the six months ended February 28, 2014 are summarized below (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance as of August 31, 2013	$ 21,536	$ 2,756	$ -	$ 24,292
Amortization expense	(1,104)	(142)	-	(1,246)
Customer list	-	1,809	-	1,809
Translation adjustments	-	201	-	201
Balance as of February 28, 2014	$ 20,432	$ 4,624	$ -	$ 25,056

The estimated amortization expense for the Company's definite-lived intangible assets in future fiscal years is as follows (in thousands):

	Trade Names	Customer List
Remainder of fiscal year 2014	$ 1,188	$ 180
Fiscal year 2015	2,377	362
Fiscal year 2016	2,377	362
Fiscal year 2017	2,377	362
Fiscal year 2018	2,377	362
Thereafter	12,612	120
Total	$ 23,308	$ 1,748

Note 6. Accrued and Other Liabilities

Accrued liabilities consisted of the following (in thousands):

	February 28, 2014	August 31, 2013
Accrued advertising and sales promotion expenses	$ 10,087	$ 9,986
Accrued professional services fees	1,409	1,358
Accrued sales taxes	1,463	1,494
Accrued other taxes	513	368
Other	6,373	3,356
Total	$ 19,845	$ 16,562

Accrued payroll and related expenses consisted of the following (in thousands):

	February 28, 2014	August 31, 2013
Accrued bonuses	$ 4,418	$ 9,847
Accrued payroll	2,556	2,048
Accrued profit sharing	770	2,739
Accrued payroll taxes	1,165	1,991
Other	463	619
Total	$ 9,372	$ 17,244

Deferred and other long-term liabilities consisted of the following (in thousands):

	February 28, 2014	August 31, 2013
Supplemental employee retirement plan benefits liability	$ 532	$ 548
Other income taxes payable	1,252	1,243
Other	157	110
Total	$ 1,941	$ 1,901

Note 7. Debt

Revolving Credit Facility

On June 17, 2011, the Company entered into an unsecured credit agreement with Bank of America, N.A. (“Bank of America”). The agreement consisted of a $75.0 million three-year revolving credit facility. Under the terms of the credit facility agreement, the Company may initiate loans in U.S. dollars or in foreign currencies from time to time during the three-year period, which was set to expire on June 17, 2014. Per the terms of the agreement, all loans denominated in U.S. dollars will accrue interest at the bank’s Prime rate or at LIBOR plus a predetermined margin and all loans denominated in foreign currencies will accrue interest at LIBOR plus the same predetermined margin (together with any applicable mandatory liquid asset costs imposed by non-U.S. banking regulatory authorities). Interest on outstanding loans is due and payable on a quarterly basis through the credit facility maturity date. The Company may also borrow against the credit facility through the issuance of standby letters of credit. Outstanding letters of credit are subject to a fee equal to a predetermined percent per annum applied to amounts available to be drawn on outstanding letters of credit. The Company will also incur commitment fees for the credit facility at a predetermined annual rate which will be applied to the portion of the total credit facility commitment that has not been borrowed until outstanding loans and letters of credit exceed one half the total amount of the credit facility.

On January 7, 2013, the Company entered into a first amendment (the “Amendment”) to this existing unsecured credit agreement with Bank of America. The Amendment extends the maturity date of the revolving credit facility for five years and increases the revolving commitment to an amount not to exceed $125.0 million. The new maturity date for the revolving credit facility per the Amendment is January 7, 2018. In addition, per the terms of the Amendment, the LIBOR margin decreased from 0.90 to 0.85 percent, the letter of credit fee decreased from 0.90 to 0.85 percent per annum and the commitment fee decreased from an annual rate of 0.15 percent to 0.12 percent. The Company will incur commitment fees applied to the portion of the total credit facility commitment that has not been borrowed until outstanding loans and letters of credit exceed $62.5 million. To date, the Company has used the proceeds of the revolving credit facility for its stock repurchases and plans to continue using such proceeds for its general working capital needs and stock repurchases under any existing board approved share buy-back plans.

The agreement includes representations, warranties and covenants customary for credit facilities of this type, as well as customary events of default and remedies. The agreement also requires the Company to maintain minimum consolidated earnings before interest, income taxes, depreciation and amortization (“EBITDA”) of $40.0 million, measured on a trailing twelve month basis, at each reporting period.

During the six months ended February 28, 2014, the Company borrowed an additional $10.0 million U.S. dollars under the revolving credit facility. The Company regularly converts existing draws on its line of credit to new draws with new maturity dates and interest rates. The balance on these draws and conversions have remained within a short-term classification due to certain contractual clauses included in its line of credit agreement with Bank of

America. As of February 28, 2014, the Company had a $73.0 million outstanding balance on the revolving credit facility and was in compliance with all debt covenants under this credit facility.

Note 8. Share Repurchase Plan

On June 18, 2013, the Company's Board of Directors approved a share buy-back plan. Under the plan, which is in effect from August 1, 2013 through August 31, 2015, the Company is authorized to acquire up to $60.0 million of its outstanding shares on such terms and conditions as may be acceptable to the Company's Chief Executive Officer or Chief Financial Officer and subject to present loan covenants and in compliance with all laws and regulations applicable thereto. During the period from August 1, 2013 through February 28, 2014, the Company repurchased 363,117 shares at a total cost of $24.9 million.

Note 9. Earnings per Common Share

The table below reconciles net income to net income available to common shareholders (in thousands):

	Three Months Ended February 28,		Six Months Ended February 28,	
	2014	2013	2014	2013
Net income	$ 10,317	$ 10,461	$ 21,799	$ 21,405
Less: Net income allocated to participating securities	(56)	(52)	(114)	(99)
Net income available to common shareholders	$ 10,261	$ 10,409	$ 21,685	$ 21,306

The table below summarizes the weighted-average number of common shares outstanding included in the calculation of basic and diluted EPS (in thousands):