CENTRAL PACIFIC FINANCIAL CORP
Form 424B3
March 30, 2015

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Filed Pursuant Rule 424(b)(3)
Registration No. 333-179807

PROSPECTUS SUPPLEMENT
(to prospectus dated March 9, 2012)

7,605,388 Shares of Common Stock

This prospectus supplement relates to the offer and sale of 7,605,388 shares of our common stock, no par value per share ("common stock" or "common shares"), and associated preferred share purchase rights, by the selling shareholders identified herein. We will not receive any proceeds from the sale of the shares of common stock by the selling shareholders.

We will purchase 3,259,452 shares of our common stock in this offering from the underwriter at a price of $23.01 per share.

Our common shares are traded on the New York Stock Exchange (the "NYSE") under the symbol "CPF." On March 25, 2015, the closing price of our common shares on the NYSE was $24.30 per share.

Investing in our common shares involves significant risks. You should read the "Risk Factors" section beginning on page S-10 of this prospectus supplement and the "Risk Factors" section in the accompanying prospectus beginning on page 9 before investing in our common shares.

The underwriter has agreed to purchase the shares of our common stock from the selling shareholders at a price of $23.01 per share, which will result in approximately $175 million of proceeds to the selling shareholders.

The underwriter proposes to offer our shares of common stock from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriter and subject to its right to reject any order in whole or in part.

None of the U.S. Securities and Exchange Commission (the "SEC"), the Hawaii Division of Financial Institutions, the Federal Deposit Insurance Corporation (the "FDIC"), the Board of Governors of the Federal Reserve System (the "FRB"), any state securities commission or any other federal or state bank regulatory agency has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Our common shares are not savings accounts, deposits or other obligations of any bank and are not insured or guaranteed by the FDIC or any other governmental agency.

The underwriter expects to deliver the common stock against payment on or about April 1, 2015, subject to customary closing conditions.

Citigroup

The date of this prospectus supplement is March 26, 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should only rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the selling shareholders have authorized anyone to provide you with information different from that contained in this prospectus supplement and the accompanying prospectus. Neither we nor the selling shareholders are making an offer to sell securities in any jurisdiction in which the offer or sale is not permitted. The information contained in this prospectus supplement is accurate only as of the date of this prospectus supplement, and any information incorporated by reference into this prospectus supplement and the accompanying prospectus is accurate only as of the date of the document incorporated by reference, in each case, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any purchase of our common stock. Our business, financial condition, results of operations, and prospects may have changed since such date. To the extent that any statement we make in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus, the statements made in the accompanying prospectus are deemed modified or superseded by the statements made in this prospectus supplement in accordance with Rule 412 under the Securities Act of 1933, as amended (the "Securities Act"). You should read both this prospectus supplement and the accompanying prospectus as well as the additional information described under the caption "Where You Can Find More Information" before investing in our common stock. To understand this offering fully, you should read this entire document carefully, including particularly the "Risk Factors" section beginning on page S-10 of this prospectus supplement and the "Risk Factors" section in the accompanying prospectus beginning on page 9.

In this prospectus supplement, we frequently use the terms "we," "our" and "us" to refer to Central Pacific Financial Corp. (the "Company") and its subsidiaries.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form S-3 with the SEC covering the securities that may be sold under this prospectus supplement and the accompanying prospectus. For further information on the Company and our securities, you should refer to our registration statement and its exhibits. As permitted by the rules and regulations of the SEC, the registration statement to which this prospectus supplement relates includes additional information not contained in this prospectus supplement. This prospectus supplement and the accompanying prospectus summarize material provisions of contracts and other documents to which we refer you. Because this prospectus supplement does not contain all of the information that we believe you should consider in advance of making an investment decision with respect to any of our securities, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement of which this prospectus supplement forms a part.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1 800 732 0330 for further information on its public reference room. In addition, our SEC filings are available to the public at the SEC's web site at http://www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the NYSE, 20 Broad Street, New York, New York. For further information on obtaining copies of our public filings at the NYSE, you should call (212) 656 5060.

The SEC allows us to "incorporate by reference" into this prospectus supplement the information in documents we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement and should be read with the same care. We incorporate by reference in this prospectus supplement the documents listed below and any future filings that we may make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), until all of the securities that may be offered by this prospectus supplement have been sold; *provided*, *however*, that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K:

- the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on February 27, 2015;

- the Company's Definitive Proxy Statement relating to our 2015 annual meeting of shareholders filed with the SEC on February 27, 2015; and

- the description of our common stock and associated preferred share purchase rights set forth in our Registration Statements on Form 8-A filed pursuant to Section 12 of the Exchange Act, including any amendment or report filed with the SEC for the purpose of updating this description.

We will provide without charge, upon written or oral request, a copy of any or all of the documents that are incorporated by reference into this prospectus supplement and a copy of any or all other contracts or documents which are referred to in this prospectus supplement. Requests should be directed to: Glenn K.C. Ching, Senior Vice President, Corporate Secretary and General Counsel of Central Pacific Financial Corp., 220 South King Street, Honolulu, Hawaii 96813.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement and the accompanying prospectus (and the information incorporated in this prospectus supplement and the accompanying prospectus by reference) that are not statements of fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in our future filings with the SEC, in press releases and in oral and written statements made by us or with our approval that are not historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company, management or the Board of Directors, including those relating to governmental and regulatory actions, business plans, use of capital resources, products or services and regulatory developments and regulatory actions; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," "continue," "forecasts", "hopes", "remain," "will," "should," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to:

- increase in inventory or adverse conditions in the real estate market and deterioration in the construction industry;
- adverse changes in the financial performance and/or condition of our borrowers and, as a result, increased loan delinquency rates, deterioration in asset quality and losses in our loan portfolio;
- the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis, storms and earthquakes) on the Company's business and operations and on tourism, the military and other major industries operating within the Hawaii market and any other markets in which the Company does business;
- deterioration or malaise in domestic economic conditions, including any further destabilization in the financial industry and deterioration of the real estate market, as well as the impact of declining levels of consumer and business confidence in the state of the economy in general and in financial institutions in particular;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, changes in capital standards, other regulatory reform, including but not limited to regulations promulgated by the Consumer Financial Protection Bureau, government-sponsored enterprise reform, and any related rules and regulations which affect our business operations and competitiveness;
- the costs and effects of legal and regulatory developments, including legal proceedings or regulatory or other governmental inquiries and proceedings and the resolution thereof, and the results of regulatory examinations or reviews;
- the effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the FRB;
- inflation, interest rate, securities market and monetary fluctuations;

- negative trends in our market capitalization and adverse changes in the price of the Company's common shares;
- political instability;
- acts of war or terrorism;
- changes in consumer spending, borrowings and savings habits;
- failure to maintain effective internal control over financial reporting or disclosure controls and procedures;
- technological changes and developments;
- changes in the competitive environment among financial holding companies and other financial service providers;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- our ability to attract and retain skilled employees;
- changes in our organization, compensation and benefit plans; and
- our success at managing any of the risks involved in the foregoing items.

For information with respect to factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see also "Risk Factors" in this prospectus supplement as well as information incorporated herein by reference as further described in "Where You Can Find More Information." Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to, and explicitly disclaim any intention to, update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events except as required by law.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference in this prospectus supplement, and does not contain all of the information we believe you will need in making your investment decision. You should read carefully this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and accompanying prospectus before making your investment decision.

Central Pacific Financial Corp.

Company Overview

Central Pacific Financial Corp. is a Hawaii corporation and a bank holding company. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank.

Through Central Pacific Bank and its subsidiaries, we offer full-service commercial banking with 36 bank branches and 110 ATMs located throughout the state of Hawaii. Our administrative and main offices are located in Honolulu and we have 28 branches on the island of Oahu. We operate four branches on the island of Maui, two branches on the island of Hawaii and two branches on the island of Kauai. Our bank's deposits are insured by the FDIC up to applicable limits. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

At December 31, 2014, we had total assets of $4.85 billion, loans and leases of $2.93 billion and total deposits of $4.11 billion.

Our common stock is traded on the NYSE under the ticker symbol "CPF." Our principal executive offices are located at 220 South King Street, Honolulu, Hawaii 96813 and our telephone number is (808) 544-0500. Our internet address is http://www.centralpacificbank.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

Recent Financial Highlights

The following sets forth certain recent financial highlights:

- In 2013, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company's outstanding common stock totaling $0.16 per share in 2013 ($0.08 per share in the 3rd and 4th quarters of 2013) and $0.36 per share in 2014 ($0.08 per share in the 1st and 2nd quarters of 2014 and $0.10 per share in the 3rd and 4th quarters of 2014). In January 2015, the Company declared a seventh consecutive quarterly cash dividend of $0.12 per share.

- On March 28, 2014, we completed a tender offer to purchase 3,405,888 shares of common stock at a purchase price of $20.20 per share for a total cost of $68.8 million, excluding fees and expenses. On April 7, 2014, we also privately repurchased 1,391,089 shares of common stock from each of our two largest shareholders at a price of $20.20 per share for a total cost of $56.2 million, excluding fees and expenses.

- On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company's outstanding common stock. In 2014, 857,554 shares of common stock were repurchased under this program at a cost of $16.5 million. In January 2015, our Board of Directors increased the authorization under the share repurchase program by $25.0 million.

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We have continued to maintain a strong capital position with tier 1 risk-based capital, total risk-based capital and leverage capital ratios as of December 31, 2014 of 16.97%, 18.24% and 12.03%, respectively, compared to 20.27%, 21.54% and 13.68%, respectively, as of December 31, 2013, and 22.54%, 23.83% and 14.32%, respectively, as of December 31, 2012. Our capital ratios continue to exceed the levels required for a "well-capitalized" regulatory designation.

We have had four consecutive profitable years with net income totaling $40.5 million, $172.1 million, $47.4 million and $36.6 million for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

We have continued to grow our loan and lease portfolio. Loans and leases, net of deferred income/costs, totaled $2.9 billion at December 31, 2014, and increased by $301.6 million, or 11.5%, from December 31, 2013.

We reduced our nonperforming assets by $4.8 million to $42.0 million at December 31, 2014 from $46.8 million at December 31, 2013. Our nonperforming assets at December 31, 2013 were reduced by $43.2 million from $90.0 million at December 31, 2012.

We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 2.53% at December 31, 2014, compared to 3.19% and 4.37% at December 31, 2013 and 2012, respectively. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 176.14% at December 31, 2014, compared to 179.29% and 107.10% at December 31, 2013 and 2012, respectively.

On February 12, 2013, the Written Agreement that we entered into with the Federal Reserve Bank of San Francisco and the Hawaii Division of Financial Institutions ("DFI") in July 2010 was terminated. In addition, the bank was notified by the FDIC on November 14, 2014 that the Compliance Memorandum of Understanding that the bank entered into with the FDIC in October 2012 had been terminated.

We remain focused on lowering our efficiency ratio and growing market share within our core Hawaii market. In connection with improving our efficiency ratio, we have completed several initiatives, including (i) outsourcing the data center and hardware for our core information technology system as well as our items processing function to Fiserv, which is our existing core software application provider; and (ii) implementing a staff right-sizing plan. Additionally, we have begun designing, developing, and implementing our data warehouse and customer relationship management programs.

Protection of our Net Operating Loss Carry-Overs

We have generated considerable tax benefits, including net operating loss carry-overs ("NOLs") and federal and state tax credits. Our ability to use the tax benefits to offset future taxable income will be significantly limited if we experience an "ownership change" for U.S. federal income tax purposes as defined in Section 382 of the Internal Revenue Code ("Section 382"). In general, an "ownership change" will occur if there is a cumulative increase in the Company's ownership by "5-percent shareholders" (as defined under U.S. income tax laws) that exceeds 50 percentage points over a rolling three-year period.

On November 23, 2010, our board declared a dividend of preferred share purchase rights ("Rights") in respect of our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the "Tax Benefits Preservation Plan"), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Tax Benefits Preservation Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for $6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of

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4.99% or more of our common stock (a "Threshold Holder"). On January 29, 2014, our Board of Directors approved an amendment to the Tax Benefits Preservation Plan to extend it for up to an additional two years (until February 18, 2016).

To further protect our tax benefits, on January 26, 2011, our board approved a proposed amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the "Protective Charter Amendment"). At our annual meeting of shareholders on April 27, 2011, our shareholders approved the Protective Charter Amendment. On January 29, 2014, our Board of Directors approved an amendment to the Protective Charter Amendment to extend it for up to an additional two years (until May 2, 2016). Our shareholders approved the extension of the Protective Charter Amendment on April 25, 2014. There is no guarantee, however, that the Tax Benefits Preservation Plan or the Protective Charter Amendment will prevent the Company from experiencing an ownership change.

You should carefully consider all of the terms and conditions of our Restated Articles of Incorporation and our Tax Benefits Preservation Plan before making an investment decision with respect to our common shares.

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The Offering

Issuer	Central Pacific Financial Corp.
Common Shares Offered by Us	None.
Common Shares Offered by Selling Shareholders	7,605,388 shares (and related preferred share purchase rights).
Use of Proceeds	We will not receive any proceeds from the sale of the shares of our common stock by the selling shareholders.
Listing	Our common shares are listed on the NYSE under the symbol "CPF."
Risk Factors	An investment in our common shares involves significant risks. Please read "Risk Factors" beginning on page S-10 of this prospectus supplement and the "Risk Factors" in the accompanying prospectus beginning on page 9.

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Summary Consolidated Financial Data

The following table sets forth selected financial information for each of the years in the five-year period ended December 31, 2014. This information is not necessarily indicative of results of future operations and should be read in conjunction with "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes contained in "Part II, Item 8. Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the year ended December 31, 2014, which is incorporated into this prospectus supplement by reference.

	Year Ended December 31,				
Selected Financial Data	**2014**	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands, except per share data)				
Statement of Operation Data:					
Total interest income	$ 149,809	$ 140,278	$ 128,445	$ 136,450	$ 160,754
Total interest expense	6,391	7,169	8,734	18,629	42,101
Net interest income	143,418	133,109	119,711	117,821	118,653
Provision (credit) for loan and lease losses	(6,414)	(11,310)	(18,885)	(40,690)	159,548
Net interest income (loss) after provision for loan and lease losses	149,832	144,419	138,596	158,511	(40,895)
Other operating income	43,823	54,945	60,743	57,002	57,700
Goodwill impairment					102,689
Other operating expense (excluding goodwill impairment)	132,813	139,536	151,918	178,942	165,069
Income (loss) before income taxes	60,842	59,828	47,421	36,571	(250,953)
Income tax expense (benefit)	20,389	(112,247)			
Net income (loss)	40,453	172,075	47,421	36,571	(250,953)
Balance Sheet Data (Year-End):					
Interest-bearing deposits in other banks	$ 13,691	$ 4,256	$ 120,902	$ 180,839	$ 729,014
Investment securities(1)	1,467,305	1,660,046	1,698,593	1,493,925	705,345
Loans and leases	2,932,198	2,630,601	2,203,944	2,064,447	2,169,444
Allowance for loan and lease losses	74,040	83,820	96,413	122,093	192,854
Goodwill					
Other intangible assets	29,697	32,783	37,499	41,986	44,639
Total assets	4,852,987	4,741,198	4,370,368	4,132,865	3,938,051
Core deposits(2)	3,306,133	3,093,279	3,006,657	2,786,215	2,796,144
Total deposits	4,110,300	3,936,173	3,680,772	3,443,528	3,132,947
Long-term debt	92,785	92,799	108,281	158,298	459,803
Total shareholders' equity	568,041	660,113	504,822	456,440	66,052
Per Share Data(3):					
Basic earnings (loss) per share	$ 1.08	$ 4.10	$ 1.14	$ 3.36	$ (171.13)
Diluted earnings (loss) per share	1.07	4.07	1.13	3.31	(171.13)
Cash dividends declared	0.36	0.16			
Book value	16.12	15.68	12.06	10.93	(42.18)
Diluted weighted average shares outstanding (in thousands)	37,937	42,317	42,084	36,342	1,516
Financial Ratios:					
Return (loss) on average assets	0.85%	3.73%	1.13%	0.90%	(5.74)%
Return (loss) on average shareholders' equity	6.80	27.70	9.81	9.83	(140.73)
Net income (loss) to average tangible shareholders' equity	6.93	28.34	10.17	10.41	(193.24)
Average shareholders' equity to average assets	12.50	13.47	11.49	9.17	4.08
Efficiency ratio(4)	70.93	74.20	84.19	102.36	151.83
Net interest margin(5)	3.32	3.19	3.10	3.09	2.91
Net loan charge-offs to average loans and leases	0.12	0.05	0.32	1.42	6.33
Nonaccrual loans to total loans and leases(6)	1.33	1.58	3.60	6.49	11.31
Allowance for loan and lease losses to total loans and leases	2.53	3.19	4.37	5.91	8.89
Allowance for loan and lease losses to nonaccrual loans(6)	189.42	201.55	121.53	91.17	78.62
Dividend payout ratio	33.64	3.93	N/A	N/A	N/A

(1) Held-to-maturity securities at amortized cost, available-for-sale securities at fair value.

(2)

Noninterest-bearing demand, interest-bearing demand and savings deposits, and time deposits under $100,000.

(3)
On February 2, 2011, we effected a 1 for 20 reverse stock split on our outstanding common stock.

(4)
The efficiency ratio is a non-GAAP financial measure which should be read and used in conjunction with the Company's GAAP financial information. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently. Our efficiency ratio is derived by dividing other operating expense by net operating revenue (net interest income plus other operating income). See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Table 7. Reconciliation to Efficiency Ratio" in our Form 10-K incorporated herein by reference.

(5)
Computed on a taxable equivalent basis using an assumed income tax rate of 35%.

(6)
Nonaccrual loans include nonaccrual loans held for sale.

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RISK FACTORS

An investment in our common stock involves significant risks. You should carefully consider the risk factors set forth in this prospectus supplement, accompanying prospectus and the risk factors incorporated by reference herein and therein, as well as the other information included or incorporated by reference in this prospectus supplement and accompanying prospectus before making an investment decision. Certain risks related to us and our business are described under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 which is incorporated herein by reference. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, the risks faced by us described elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein.

PLAN OF DISTRIBUTION

We and the selling shareholders have entered into an underwriting agreement with Citigroup Global Markets Inc., the underwriter. Subject to the terms and conditions of the underwriting agreement, each of the selling shareholders has severally agreed to sell to the underwriter, and the underwriter has agreed to purchase, 3,802,694 shares of common stock or 7,605,388 shares in the aggregate.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares included in this offering is subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all the common shares if it purchases any of the common shares.

The underwriter proposes to offer our shares of common stock from time to time for sale in one or more transactions on the NYSE, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriter and subject to its right to reject any order in whole or in part. In connection with the sale of our shares of common stock offered hereby, the underwriter may be deemed to have received compensation in the form of underwriting discounts. The underwriter may effect such transactions by selling our common shares to or through dealers, and such dealers may receive compensation in the form of discounts or commissions from the underwriter and/or purchasers of our shares of common stock for whom they may act as agents or to whom they may sell as principals.

The underwriter has agreed to purchase the shares of our common stock from the selling shareholders at a price of $23.01 per share, which will result in approximately $175 million of proceeds to the selling shareholders.

Sales of shares made outside of the United States may be made by affiliates of the underwriter. The offering of the shares by the underwriter is subject to receipt and acceptance and subject to the underwriter's right to reject any order in whole or in part.

We estimate that our share of the total expenses of this offering, including registration, filing and listing fees, printing fees and legal, advisory and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately $500,000.

Subject to completion of the offering, we will purchase 3,259,452 shares of our common stock from the underwriter at the price it paid for the shares.

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A prospectus supplement in electronic format may be made available on the websites maintained by the underwriter, or one or more selling group members, if any, participating in this offering. The underwriter may agree to allocate a number of shares to selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriter to the selling group members that may make Internet distributions on the same basis as other allocations.

We, each of our executive officers and directors and the selling shareholders have agreed, for the period beginning on and including the date of this prospectus through and including the date that is 60 days after the date of this prospectus supplement, not to sell, offer, agree to sell, contract to sell, hypothecate, pledge, grant any option to purchase, make any short sale, or otherwise dispose of or hedge, directly or indirectly, any class or series of our common shares, any of our securities that are substantially similar to any of our common shares or any of our securities convertible into, exchangeable or exercisable for, or that represent the right to receive any of our common shares or any of our securities that are substantially similar to any class or series of our common shares, without, in each case, the prior written consent of Citigroup Global Markets Inc. These restrictions are expressly agreed to preclude us, and our officers and directors and the selling shareholders, from engaging in any hedging or other transaction or arrangement that is designed to, or which reasonably could be expected to, lead to or result in a sale, disposition or transfer, in whole or in part, of any of the economic consequences of ownership of our common shares, whether such transaction would be settled by delivery of our common shares or other securities, in cash or otherwise. The 60 day restricted period will be automatically extended if (1) during the last 17 days of the 60 day restricted period we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 60 day restricted period, we announce that we will release earnings results or become aware that material news or a material event relating to us will occur during the 16 day period beginning on the last day of the 60 day restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18 day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The restrictions described in the preceding paragraph will not apply to (1) the issuance by us of common shares, and options to purchase common shares, pursuant to stock plans, as those plans are in effect on the date of this prospectus supplement; (2) the issuance by us of our common shares upon the exercise of stock options or other securities convertible into or exchangeable for common shares that are outstanding as of the date of this prospectus supplement, and the issuance by us of common shares upon the exercise of stock options or other securities convertible into or exchangeable for common stock issued after the date of this prospectus supplement under stock plans referred to in clause (1) of this sentence; (3) a bona fide gift or gifts by any of our officers or directors, provided that the donee or donees thereof agree to be bound in writing by the restrictions described in the preceding paragraph; (4) a transfer by any of our officers or directors to any trust for the direct or indirect benefit of that officer or director or his or her immediate family, provided that the trustee of the trust agrees to be bound in writing by such restrictions and provided further that any such transfer shall not involve a disposition for value; (5) a transfer by any of our officers or directors in connection with sales or transfers of common stock to the Company solely in connection with the "net" or "cashless" exercise or settlement of Company stock options, restricted stock or restricted stock units for the purpose of exercising or settling such stock options, restricted stock, restricted stock units, provided that any remaining common stock received upon such exercise or settlement will be subject to the restrictions set forth in the preceding paragraph; (6) the disposition of shares of common stock by our officers or directors to the Company solely in connection with the payment of taxes due with respect to the vesting of restricted stock awards or the exercise or settlement of restricted stock units issued pursuant to the Company's equity incentive plans; (7) transfers by our officers or directors to any person pursuant to a merger, tender offer or exchange offer or other business combination, acquisition of assets or similar transaction that would, without the participation of such person, result in a change of control; (8) a bona fide gift or gifts by any of the selling shareholders, provided that the donee or donees thereof agree to be bound in writing by the restrictions described in the preceding paragraph; (9) transfers by any of the selling shareholders to any affiliates, provided that such affiliated transferees agree in writing to be bound by the restrictions in the lock-up agreement; (10) transfers by any of the selling shareholders to any person pursuant to a merger, tender offer or exchange offer or other business combination, acquisition of assets or similar transaction that would, without the participation of the selling shareholder, result in a change of control; (11) transfers by any of the selling shareholders, in the event of any waiver or termination by the underwriter of the restrictions described in the preceding paragraphs with respect to the common shares of any other shareholder (other than a Company director or officer), to the same extent of such waiver or termination, on a pro rata basis based on the number of common shares subject to all such restrictions or (12) in the case of Carlyle Financial Services Harbor, L.P., transfers in connection with a guarantee and pledge agreement it has entered into with The Bank of N.T. Butterfield and Son Limited. For purposes of this paragraph, "immediate family" shall mean any relationship by blood, marriage or adoption not more remote than first cousin.

The underwriter may, in its sole discretion and at any time and from time to time, without notice, release all or any portion of the foregoing shares and other securities from the foregoing restrictions.

Foreign currency forward contracts are accounted for on a mark-to-market basis, 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.

The Company continually monitors its positions with, and the credit quality of, the financial institution that is counterparty to its foreign currency forward contracts, and has not experienced nonperformance by this counterparty. As a matter of policy, the Company does not purchase foreign currency forward contracts that exceed the amount of its cash and intercompany accounts receivable balances denominated in non-functional currencies. At November 30, 2010, the Company had $8.1 million of foreign currency forward contracts outstanding which mature from December 2010 through March 2011. Unrealized net gains and losses related to foreign currency forward contracts were not material at November 30, 2010 and August 31, 2010. Realized net losses related to foreign currency forward contracts were $0.2 million and $0.4 million for the three months ended November 30, 2010 and 2009, respectively.

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. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. In addition to valuation allowances, the Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance on income taxes. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. The Company recognizes accrued interest and penalties related to uncertain tax positions as a component of income tax expense.

U.S. federal income tax expense is provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. U.S. federal income taxes and foreign withholding taxes are not provided when foreign earnings are indefinitely reinvested. The Company determines whether its foreign subsidiaries will invest their undistributed earnings indefinitely based on the capital needs of the foreign subsidiaries and reassesses this determination each reporting period. Changes to the Company s determination may be warranted based on the Company s experience as well as plans regarding future international operations and expected remittances.

Earnings per Common Share

The Company calculates earnings per common share (EPS) using the two-class method, which provides for an allocation of net income between common stock and other participating securities based on their respective participation rights to share in dividends. Basic EPS is calculated by dividing net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Net income available to common shareholders for the period includes dividends paid to common shareholders during the period plus a proportionate share of undistributed net income allocable to common shareholders for the period; the proportionate share of undistributed net income allocable to common shareholders for the period is based on the proportionate share of total weighted-average common shares and participating securities outstanding during the period.

Diluted EPS is calculated by dividing net income available to common shareholders for the period by the weighted-average number of common shares outstanding during the period increased by the weighted-average number of

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

potentially dilutive common shares (dilutive securities) that were outstanding during the period if the effect is dilutive. Dilutive securities are comprised of stock options, restricted stock units and performance share units granted under the Company s prior stock option plan and current equity incentive plan.

Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued updated authoritative guidance related to fair value measurements which requires certain new disclosures related to activities in Level 3 fair value measurements, including purchases, sales, issuances and settlements. This updated authoritative guidance is effective for annual periods beginning after December 15, 2010. The Company does not expect the adoption of this updated authoritative guidance to have a material impact on its consolidated financial statement disclosures.

In July 2010, the FASB issued updated authoritative guidance related to financing receivables which enhances the disclosure requirements about the credit quality and related allowance for credit losses of financing receivables. This updated authoritative guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company has evaluated this updated authoritative guidance, and it does not expect it to impact its consolidated financial statement disclosures.

In December 2010, the FASB issued updated authoritative guidance related to when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Per this updated authoritative guidance, when a reporting unit has a zero or negative carrying amount, Step 2 of the goodwill impairment test will be performed if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors to be considered are consistent with the current interim impairment triggers for goodwill. Upon adoption, an entity will perform Step 2 of the goodwill impairment test if it is more likely than not that goodwill is impaired. Furthermore, any impairment identified at the time of adoption will be recognized as a cumulative effect adjustment to beginning retained earnings. The Company is required to apply these new requirements in its fiscal year beginning after December 15, 2010. The Company has evaluated this updated authoritative guidance, and it does not expect it to have a material impact on its consolidated financial statements.

Note 3. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of tangible and intangible assets acquired. Other intangible assets, including both indefinite-lived intangible assets and definite-lived intangible assets, consist of trade names and non-contractual customer relationships. The carrying values of goodwill and indefinite-lived intangible assets are reviewed for possible impairment annually during the Company s second fiscal quarter.

In addition to the annual impairment tests, goodwill and indefinite-lived intangible assets are evaluated each reporting period. 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. Indefinite-lived intangible assets are evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life and to determine whether any indicators of impairment exist. Indicators such as underperformance relative to historical or projected future operating results, changes in the Company s strategy for its overall business or use of acquired assets, unexpected negative industry or economic trends, decline in the Company s stock price for a sustained period, decreased market capitalization relative to net book values, unanticipated technological change or competitive activities, loss of key distribution, change in consumer demand, loss of key personnel and acts by governments and courts may signal that an asset has become impaired.

Definite-lived intangible assets 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.

During the second quarter of fiscal year 2010, the Company performed its annual impairment tests of goodwill and indefinite-lived intangible assets. The annual goodwill impairment test was performed at the reporting unit level as required by the authoritative guidance on intangibles, goodwill and other. This annual test follows a two-step process and is conducted by applying fair value concepts. Only the first step of the annual goodwill impairment test

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

was required as the fair values of all reporting units significantly exceeded their carrying values. In performing the annual impairment test of its goodwill and indefinite-lived intangible assets, the Company considered the fair value concepts of a market participant and the highest and best use for its intangible assets. Based on the results of these annual impairment tests, the Company determined that no impairment existed related to either its goodwill or indefinite-lived intangible assets as of February 28, 2010.

In addition, there were no indicators of impairment identified as a result of the Company s review of events and circumstances related to its goodwill or other intangible assets for the three months ended November 30, 2010.

Goodwill

Changes in the carrying amounts of goodwill by segment for the three months ended November 30, 2010 are summarized below (in thousands):

	Americas	Europe	Asia-Pacific	Total
Balance as of August 31, 2010	$ 85,546	$ 8,479	$ 1,210	$ 95,235
Translation adjustments	3	17		20
Balance as of November 30, 2010	$ 85,549	$ 8,496	$ 1,210	$ 95,255

To date, there have been no impairment losses identified and recorded related to the Company s goodwill.

Indefinite-lived Intangible Assets

Indefinite-lived intangible assets, which are not being amortized, consist of the 2000 Flushes, Spot Shot and 1001 trade names and are included in other intangible assets, net in the Company s condensed consolidated balance sheets. Changes in the carrying amounts of indefinite-lived intangible assets by segment for the three months ended November 30, 2010 are summarized below (in thousands):

	Americas	Europe	Asia-Pacific	Total
Balance as of August 31, 2010	$ 24,500	$ 3,149	$	$ 27,649
Translation adjustments		15		15
Balance as of November 30, 2010	$ 24,500	$ 3,164	$	$ 27,664

Definite-lived Intangible Assets

The Company s definite-lived intangible assets consist of the Carpet Fresh and X-14 trade names and certain non-contractual customer relationships from the acquisition of the 1001 line of products in fiscal year 2004 and are included in other intangible assets, net in the Company s condensed consolidated balance sheets. The Carpet Fresh and X-14 trade names are being amortized on a straight-line basis over their estimated useful lives of thirteen and eight years, respectively. The non-contractual customer relationships intangible asset is being amortized on a straight-line basis over its estimated useful life of eight years. The following table summarizes the definite-lived intangible assets and the related accumulated amortization (in thousands):

	November 30, 2010	August 31, 2010
Gross carrying amount	$ 6,860	$ 6,842

Accumulated amortization	(3,414)	(3,219)
Net carrying amount	$ 3,446	$ 3,623

Changes in the carrying amounts of definite-lived intangible assets by segment for the three months ended November 30, 2010 are summarized below (in thousands):

	Americas	**Europe**	**Asia-Pacific**	**Total**
Balance as of August 31, 2010	$ 2,892	$ 731	$	$ 3,623
Amortization expense	(64)	(117)		(181)
Translation adjustments		4		4
Balance as of November 30, 2010	$ 2,828	$ 618	$	$ 3,446

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The estimated future amortization expense for the non-contractual customer relationships intangible asset is based on current foreign currency exchange rates, and amounts in future periods may differ from those presented due to fluctuations in those rates. The estimated amortization expense for the Carpet Fresh and X-14 trade names and non-contractual customer relationships intangible assets in future fiscal years is as follows (in thousands):

	Trade Names	Non-Contractual Customer Relationships
Remainder of fiscal year 2011	$ 194	$ 348
Fiscal year 2012	258	270
Fiscal year 2013	258	
Fiscal year 2014	258	
Fiscal year 2015	258	
Thereafter	1,602	
Total	$ 2,828	$ 618

Note 4. Fair Value Measurements

Financial Assets and Liabilities

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.

Financial assets measured at fair value on a recurring basis are summarized below (in thousands):

	Significant Other Observable Inputs (Level 2)	
	November 30, 2010	August 31, 2010
Assets:		
Money market funds	$ 22,439	$ 24,362

Money market funds are highly liquid investments classified as cash equivalents in the Company s condensed consolidated balance sheets at November 30, 2010 and August 31, 2010. These securities are valued based on third party quotations of similar assets in active markets, and are thus classified as Level 2 within the fair value hierarchy.

There were no transfers between Level 1 and Level 2 fair value measurements during the three months ended November 30, 2010.

The carrying values of trade accounts receivable and accounts payable approximate their fair values due to their short-term maturities. The estimated fair value of long-term debt, including current maturities, was $11.3 million and $22.4 million at November 30, 2010 and August 31, 2010, respectively, based on discounted future cash flows using current market interest rates.

Nonfinancial Assets and Liabilities

The Company s nonfinancial assets and liabilities are recognized at fair value subsequent to initial recognition when they are deemed to be impaired. There were no nonfinancial assets and liabilities deemed to be impaired and measured at fair value on a nonrecurring basis as of November 30, 2010 and August 31, 2010.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 5. Balance Sheet Details

The condensed consolidated balance sheet details are summarized below (in thousands):

	November 30, 2010	August 31, 2010
Inventories:		
Raw materials and components	$ 1,613	$ 1,811
Work-in-process	1,523	979
Finished goods	12,694	10,247
Total	$ 15,830	$ 13,037
Other current assets:		
Prepaids and other current assets	$ 4,744	$ 4,717
Federal and state income taxes receivable		2,597
Total	$ 4,744	$ 7,314
Property, plant and equipment, net:		
Machinery, equipment and vehicles	$ 12,583	$ 12,162
Buildings and improvements	4,456	4,416
Computer and office equipment	3,165	3,075
Software	4,083	4,011
Furniture and fixtures	1,113	1,092
Land	543	542
Subtotal	25,943	25,298
Less: accumulated depreciation and amortization	(16,543)	(15,976)
Total	$ 9,400	$ 9,322
Accrued liabilities:		
Accrued advertising and sales promotion expenses	$ 8,950	$ 8,940
Accrued professional services fees	1,194	1,160
Accrued other taxes	1,061	914
Accrued sales taxes	803	797
Other	3,343	2,571
Total	$ 15,351	$ 14,382
Accrued payroll and related expenses:		
Accrued profit sharing	$ 2,428	$ 2,051
Accrued payroll	1,889	2,020
Accrued payroll taxes	1,512	1,388
Accrued bonuses	816	8,333
Other	462	473

Total	$	7,107	$	14,265
Deferred employee benefits and other long-term liabilities:				
Supplemental employee retirement plan benefits liability	$	699	$	705
Other income taxes payable		3,846		3,846
Other		124		84
Total	$	4,669	$	4,635

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 6. Shareholders Equity

Changes in shareholders equity for the three months ended November 30, 2010 were as follows (in thousands):

Balance at August 31, 2010	$ 196,524
Net income	9,079
Issuance of common stock upon exercises of stock options and conversions of restricted stock units to common shares	7,473
Tax benefit from exercises of stock options and conversions of restricted stock units to common shares	560
Stock-based compensation	806
Cash dividends	(4,534)
Foreign currency translation adjustment, net of income taxes	499
Balance at November 30, 2010	$ 210,407

Note 7. Share Repurchase Plan

On December 8, 2009, the Company s Board of Directors approved a share buy-back plan. Under the plan, which is in effect for up to twelve months from the date of approval, the Company is authorized to acquire up to $15.0 million of its outstanding shares. During the period from December 8, 2009 through November 30, 2010, the Company did not purchase any shares under this share buy-back plan. See Note 12 for details on a new share buy-back plan that was approved by the Company s Board of Directors on December 14, 2010.

Note 8. Earnings per Common Share

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

	Three Months Ended November 30,	
	2010	**2009**
Net income	$ 9,079	$ 9,413
Less: Net income allocated to participating securities	(31)	(27)
Net income available to common shareholders	$ 9,048	$ 9,386

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

	Three Months Ended November 30,	
	2010	**2009**
Weighted-average common shares outstanding, basic	16,796	16,556
Weighted-average dilutive securities	195	96
Weighted-average common shares outstanding, diluted	16,991	16,652

For the three months ended November 30, 2010, there were no anti-dilutive stock options outstanding. For the three months ended November 30, 2009, weighted-average stock options outstanding to purchase 624,202 shares of the Company s common stock were excluded from the weighted-average number of common shares and potential common shares outstanding used in the calculation of diluted EPS as the effect of including them would be anti-dilutive because the stock options had an exercise price greater than or equal to the average market value of the Company s common stock during the period.

Note 9. Commitments and Contingencies

The Company has relationships with various suppliers (contract manufacturers) who manufacture the Company s products. Although the Company typically does not have definitive minimum purchase obligations included in the contract terms with its contract manufacturers, when such obligations have been included, they have been immaterial to date. Supply needs are communicated by the Company to its contract manufacturers and the Company is committed to purchase the products produced based on orders and short-term projections, ranging from two to five months, provided to the contract manufacturers. The Company is also obligated to purchase obsolete or slow-moving inventory from its contract manufacturers and has done so in the past under these commitments, the amounts of which have been immaterial.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In addition to the commitments to purchase products from contract manufacturers described above, the Company may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of November 30, 2010, no such commitments were outstanding.

The Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business. With the possible exception of the legal proceedings discussed below, management is of the opinion that none of these matters is likely to have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

On October 3, 2010, a legal action was filed against the Company in the United States Federal Court for the Eastern District of Texas (*Promote Innovation, LLC v. WD-40 Company*). The complaint is a *qui tam* action brought by the plaintiff on behalf of the United States of America for alleged violation of Section 292 of the Patent Act (Title 35 U.S. Code, Section 292) for false patent marking. The complaint alleges that the Company included reference to an expired patent on certain product packaging, specifically including 2000 Flushes brand products, with an intent to deceive the public. The complaint seeks to recover a civil monetary fine of $500 per false marking offense, or an alternative amount determined by the court, one-half of which is to be paid to the United States. The Company intends to vigorously defend this claim of intentional false patent marking. At the present time, the Company is unable to estimate the extent of possible loss or a range of possible loss with respect to this claim.

On June 18, 2010, a legal action was filed against the Company in the Superior Court of California for the County of Orange (*Andrea Burns v. WD-40 Company*). The complaint seeks class action status and alleges that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. This action is substantively similar to the *Drimmer v. WD-40 Company* case that was filed by the same plaintiff law firm in April 2006 in the United States District Court, Southern District of California. In August 2008, the Company defeated class certification in that case, a decision that was upheld by the Ninth Circuit Court of Appeals in September 2009, and the case was dismissed with prejudice in March 2010. As in the *Drimmer* case, the Company intends to vigorously defend against the *Burns* case. If, however, class action certification is granted in the *Burns* case, it is reasonably possible that the outcome could have a material adverse effect on the Company s consolidated financial position, results of operations and cash flows. There is not sufficient information available at this time to determine the likelihood that class certification will be granted or the extent of possible loss if class certification is granted.

Since 2004, the Company has been named as a defendant in lawsuits brought by a group of attorneys on behalf of individual plaintiffs who assert that exposure to products that allegedly contain benzene is a cause of certain cancers (the Benzene Lawsuits). The Company is one of many defendants in these legal proceedings whose products are alleged to contain benzene. However, the Company specifies that its suppliers provide constituent ingredients free of benzene. The Company believes its products have always been formulated without containing benzene and that the facts developed in litigation to date support this position. The plaintiffs in the Benzene Lawsuits typically seek damages in unspecified amounts for injuries or death attributable to a form of cancer linked to exposure to benzene. The Company is unable to quantify the total amount of damages asserted by the plaintiffs in the Benzene Lawsuits. Except for self-insured retention amounts applicable to each separately filed lawsuit, the Company expects that the Benzene Lawsuits will be adequately covered by insurance and will not have a material impact on the Company s consolidated financial position or results of operations. The Company is vigorously defending these lawsuits. The Company is unable to assess the expected cost of defense of these lawsuits in future periods. If the number of Benzene Lawsuits filed against the Company increases, it is reasonably possible that such costs of defense may materially affect the Company s consolidated financial position, results of operations and cash flows in future periods.

As permitted under Delaware law, the Company has agreements whereby it indemnifies senior officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

indemnification agreements is unlimited; however, the Company maintains Director and Officer insurance coverage that mitigates the Company s exposure with respect to such obligations. As a result of the Company s insurance coverage, management believes that the estimated fair value of these indemnification agreements is minimal. Thus, no liabilities have been recorded for these agreements as of November 30, 2010.

From time to time, the Company enters into indemnification agreements with certain contractual parties in the ordinary course of business, including agreements with lenders, lessors, contract manufacturers, marketing distributors, customers and certain vendors. All such indemnification agreements are entered into in the context of the particular agreements and are provided in an attempt to properly allocate risk of loss in connection with the consummation of the underlying contractual arrangements. Although the maximum amount of future payments that the Company could be required to make under these indemnification agreements is unlimited, management believes that the Company maintains adequate levels of insurance coverage to protect the Company with respect to most potential claims arising from such agreements and that such agreements do not otherwise have value separate and apart from the liabilities incurred in the ordinary course of the Company s business. Thus, no liabilities have been recorded with respect to such indemnification agreements as of November 30, 2010.

Note 10. Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The provision for income taxes was 31.5% and 34.4% of income before income taxes for the three months ended November 30, 2010 and 2009, respectively. The decrease in the effective tax rate is partially due to provision adjustments of $0.1 million associated with the Company s fiscal year 2010 federal tax return, which was timely filed during the current quarter. Historically, such provision adjustments have been recorded during the third fiscal quarter. In addition, the tax benefit associated with the qualified domestic production deduction increased by $0.1 million for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year, resulting in a lower effective tax rate for the current period.

The total amount of unrecognized tax benefits was $3.6 million as of November 30, 2010 and August 31, 2010, of which $1.1 million would impact the effective tax rate if recognized. The gross liability for income taxes related to unrecognized tax benefits is included in other long-term liabilities in the Company s condensed consolidated balance sheets.

The total balance of accrued interest related to uncertain tax positions was $0.3 million and $0.2 million as of November 30, 2010 and August 31, 2010, respectively. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. There were no material interest or penalties included in income tax expense for each of the three month periods ended November 30, 2010 and 2009.

The Company is subject to taxation in the U.S. and in various state and foreign jurisdictions. Due to expired statutes, the Company s federal income tax returns for years prior to fiscal year 2007 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state and foreign jurisdictions where the Company does business, periods prior to fiscal year 2006 are no longer subject to examination. The Company is currently under audit in various state and local jurisdictions for fiscal years 2005 through 2008. The Company has estimated that up to $0.4 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

Note 11. Business Segments and Foreign Operations

The Company evaluates the performance of its segments and allocates resources to them based on sales, operating income and expected return. The Company is organized based on geographic location. Segment data does not include inter-segment revenues and incorporates corporate expenses into the Americas segment, with the exception of certain research and development expenses which the Europe segment started to incur during the current fiscal

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

year. All such corporate expenses are not allocated to other segments because the Company s segments are run independently. As a result, there are few costs that could be considered only corporate expenses that would qualify for allocation to other segments. The most significant portion of corporate expenses relates to the Americas segment both as a percentage of time and sales. Therefore, any allocation to other segments would be arbitrary.

The tables below present information about reportable segments and net sales by product line (in thousands):

As of and for the Three Months Ended November 30:

	Americas	Europe	Asia-Pacific	Total
2010				
Net sales	$ 39,215	$ 30,757	$ 10,955	$ 80,927
Income from operations (1)	$ 4,178	$ 6,609	$ 2,535	$ 13,322
Depreciation and amortization expense	$ 622	$ 311	$ 45	$ 978
Interest income	$ 5	$ 26	$ 24	$ 55
Interest expense	$ 320	$	$ 2	$ 322
Total assets	$ 188,893	$ 84,821	$ 12,018	$ 285,732
2009				
Net sales	$ 43,679	$ 27,247	$ 6,795	$ 77,721
Income from operations (1)	$ 6,870	$ 6,726	$ 1,133	$ 14,729
Depreciation and amortization expense	$ 727	$ 319	$ 36	$ 1,082
Interest income	$	$ 23	$ 12	$ 35
Interest expense	$ 522	$	$ 2	$ 524
Total assets	$ 178,459	$ 75,479	$ 8,854	$ 262,792

(1) Income from operations for the Americas segment included corporate expenses of $4.5 million and $4.4 million for the three months ended November 30, 2010 and 2009, respectively. Research and development expenses included in income from operations for the Europe segment were not significant for the three months ended November 30, 2010.

Net Sales by Product Line:

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009
Multi-purpose maintenance products	$ 66,533	$ 60,679
Homecare and cleaning products	14,394	17,042
Total	$ 80,927	$ 77,721

Note 12. Subsequent Events

On December 8, 2010, the Company s existing share buy-back plan expired. The Company did not repurchase any shares under this share buy-back plan during the twelve month period it was in effect.

On December 14, 2010, the Company s Board of Directors approved a new share buy-back plan. Under the plan, which is in effect through December 13, 2011, the Company is authorized to acquire up to $25.0 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 lender approval from Prudential Capital and in compliance with all laws and regulations applicable thereto.

Also on December 14, 2010, the Company s Board of Directors declared a cash dividend of $0.27 per share payable on January 31, 2011 to shareholders of record on January 7, 2011.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

As used in this report, the terms we, our, us and the Company refer to WD-40 Company and its wholly-owned subsidiaries, unless the context suggests otherwise. Amounts and percents in tables and discussions may not total due to rounding.

The following information is provided as a supplement to, and should be read in conjunction with, the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010, which was filed with the Securities and Exchange Commission (SEC) on October 18, 2010.

In order to show the impact of changes in foreign currency exchange rates on our consolidated results of operations, we have included constant currency disclosures, where necessary, in the Overview and Results of Operations sections which follow. Constant currency disclosures represent the translation of our current fiscal year revenues and expenses from the functional currencies of our subsidiaries to U.S. dollars using the exchange rates in effect for the corresponding period of the prior fiscal year.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward-looking statements. This 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 other expressions that indicate future events and trends identify forward-looking statements. These statements include, but are not limited to, references to the near-term growth expectations for multi-purpose maintenance products and homecare and cleaning products, the impact of changes in product distribution, competition for shelf space, the impact of competition on product pricing, the level of promotional and advertising spending, plans for and success of product innovation, the impact of new product introductions on the growth of sales, the impact of customer mix and costs of raw materials, components and finished goods on gross margins, the impact of promotional programs on sales, the rate of sales growth in the Asia-Pacific segment, direct European countries and Eastern and Northern Europe, foreign currency exchange rates and fluctuations in those rates, the impact of changes in inventory management, the effect of future income tax provisions and audit outcomes on tax rates, and the effects of, and changes in, worldwide economic conditions and legal proceedings and other risk factors. The Company undertakes no obligation to revise or update any forward-looking statements.

Actual events or results may differ materially from those projected in forward-looking statements due to various factors, including, but not limited to, those identified in Part I Item 1A, Risk Factors, in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2010, and in the Company s Quarterly Reports on Form 10-Q, which may be updated from time to time.

Overview

The Company

WD-40 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 the brand fortress of the Company. We market three multi-purpose maintenance product brands, WD-40®, 3-IN-ONE® Oil and BLUE WORKS . Blue Works, which is targeted at the industrial channel, is the newest of these product brands. We launched Blue Works in the U.S. in the second quarter of fiscal year 2010 and in select markets in Europe starting in November 2010. We also market the following homecare and cleaning product 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® carpet and household cleaners and rug and room deodorizers and Lava® and Solvol® heavy-duty hand cleaners.

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Our 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 U.K., Australia and the Pacific Rim. We sell our products primarily through mass retail and home center stores, warehouse club stores, grocery stores, hardware stores, automotive parts outlets and industrial distributors and suppliers.

Highlights

Highlights for our business for the three months ended November 30, 2010, include the following:

Changes in foreign currency exchange rates had an unfavorable impact of $0.5 million on consolidated net sales for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates in the Europe segment had an unfavorable impact on net sales of $1.0 million which was partially offset by the favorable impact of changes in foreign currency exchanges rates on net sales of $0.3 million and $0.1 million in the Asia-Pacific and Americas segments, respectively. Changes in foreign currency exchange rates did not have a material impact on consolidated net income for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Sales of multi-purpose maintenance products increased 10% for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year due to sales growth in the Europe and Asia-Pacific segments of 13% and 70%, respectively. Sales of multi-purpose maintenance products in the Europe segment increased primarily due to improved economic conditions, the continued growth of the WD-40 Smart Straw and 3-IN-ONE products, the timing of promotional activities and the ongoing growth of our base business. Sales of multi-purpose maintenance products in the Asia-Pacific segment increased due to improved economic conditions and significant promotional activities. Partially offsetting these increases was a decrease in sales of multi-purpose maintenance products in the Americas segment of 5% due to lower sales of WD-40 products in the U.S.

Sales of homecare and cleaning products decreased 16% for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year primarily due to the sales decrease of 22% in the Americas segment primarily related to Spot Shot products. Although we remain focused on stabilizing the sales of our homecare and cleaning products, sales of these products continue to be negatively impacted by competition, lost distribution and the volatility of orders from and promotional programs with customers, particularly those in the warehouse club and mass retail channels.

Our gross profit as a percentage of net sales remained flat at 51% for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year due to several factors which offset each other. Gross margin was favorably impacted by lower aerosol can costs, lower advertising and promotional discounts and sales price increases implemented on certain products during the three months ended November 30, 2010. These favorable items were offset by higher costs of petroleum-based materials and the impact of unfavorable changes in foreign currency exchange rates from period to period.

Our core strategic initiatives and the areas where we will continue to focus our time and resources for the remainder of fiscal year 2011 and in future periods include: (i) expanding geographically in countries where end users could benefit from or continue to benefit from using the WD-40 brand; (ii) maximizing our position in the multi-purpose maintenance products segment by focusing our research and development resources to leverage our multi-purpose maintenance products and adjacent categories; (iii) developing our business through acquisitions, joint ventures, licensing and/or other strategic partnerships; and (iv) leveraging the trust the WD-40 brand has established with its wide user base to grow our revenues and profits.

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Results of Operations

Three Months Ended November 30, 2010 Compared to Three Months Ended November 30, 2009

Operating Items

The following table summarizes operating data for our consolidated operations (in thousands, except percentages and per share amounts):

	Three Months Ended November 30,			
			Change from Prior Year	
	2010	2009	Dollars	Percent
Net sales:				
Multi-purpose maintenance products	$ 66,533	$ 60,679	$ 5,854	10%
Homecare and cleaning products	14,394	17,042	(2,648)	(16)%
Total net sales	80,927	77,721	3,206	4%
Cost of products sold	39,705	37,808	1,897	5%
Gross profit	41,222	39,913	1,309	3%
Operating expenses	27,900	25,184	2,716	11%
Income from operations	$ 13,322	$ 14,729	$ (1,407)	(10)%
Net income	$ 9,079	$ 9,413	$ (334)	(4)%
Earnings per common share diluted	$ 0.53	$ 0.56	$ (0.03)	(5)%

Net Sales by Segment

The following table summarizes net sales by segment (in thousands, except percentages):

	Three Months Ended November 30,			
			Change from Prior Year	
	2010	2009	Dollars	Percent
Americas	$ 39,215	$ 43,679	$ (4,464)	(10)%
Europe	30,757	27,247	3,510	13%
Asia-Pacific	10,955	6,795	4,160	61%
Total	$ 80,927	$ 77,721	$ 3,206	4%

Americas

The following table summarizes net sales by product line for the Americas segment (in thousands, except percentages):

Three Months Ended November 30,

			Change from Prior Year	
	2010	**2009**	**Dollars**	**Percent**
Multi-purpose maintenance products	$ 28,456	$ 29,920	$ (1,464)	(5)%
Homecare and cleaning products	10,759	13,759	(3,000)	(22)%
Total	$ 39,215	$ 43,679	$ (4,464)	(10)%
% of consolidated net sales	**48%**	**56%**		

Sales in the Americas segment, which includes the U.S., Canada and Latin America, decreased to $39.2 million, down $4.5 million, or 10%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates did not have a material impact on sales for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Sales of multi-purpose maintenance products in the Americas segment decreased $1.5 million, or 5%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. This sales decrease was driven by lower sales of WD-40 products in the U.S. which were down $1.6 million, or 7%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year primarily due to lost distribution, a lower level of replenishment orders from and the timing of promotional activities with certain of our key customers.

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Sales of homecare and cleaning products in the Americas segment decreased $3.0 million, or 22%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Although we remain focused on stabilizing the sales of our homecare and cleaning products, sales of these products continue to be negatively impacted by competition, lost distribution and the volatility of orders from and promotional programs with customers, particularly those in the warehouse club and mass retail channels. Sales of homecare and cleaning products in the U.S., which is where the majority of such sales originate, decreased $3.0 million, or 24%, from period to period. This sales decrease was driven primarily by lower sales of Spot Shot products, which were down $2.5 million, or 43%, in the U.S. for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. This decrease in Spot Shot sales was due to several factors, including the timing and lower level of promotional activities, specifically those within the warehouse club channel, lost distribution and the effect of competitive factors.

For the Americas segment, 79% of sales came from the U.S., and 21% of sales came from Canada and Latin America combined for the three months ended November 30, 2010, compared to the distribution for the three months ended November 30, 2009, when 81% of sales came from the U.S., and 19% of sales came from Canada and Latin America combined.

Europe

The following table summarizes net sales by product line for the Europe segment (in thousands, except percentages):

	Three Months Ended November 30,			
			Change from Prior Year	
	2010	2009	Dollars	Percent
Multi-purpose maintenance products	$ 28,544	$ 25,161	$ 3,383	13%
Homecare and cleaning products	2,213	2,086	127	6%
Total	$ 30,757	$ 27,247	$ 3,510	13%
% of consolidated net sales	**38%**	**35%**		

Sales in the Europe segment increased to $30.8 million, up $3.5 million, or 13%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year had an unfavorable impact on sales. Sales for the three months ended November 30, 2010 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been $31.7 million in the Europe segment. Thus, on a constant currency basis, sales would have increased by $4.5 million, or 16%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

The countries in Europe where we sell through a direct sales force include the U.K., Italy, France, Iberia (which includes Spain and Portugal) and the Germanics sales region (which includes Germany, Austria, Denmark, Holland and Switzerland). Overall, sales from these direct markets increased $2.8 million, or 17%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year and accounted for 64% of the Europe segment s sales for the three months ended November 30, 2010 compared to 62% of the Europe segment s sales for the corresponding period of the prior fiscal year. We experienced sales growth throughout most of the Europe segment for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year, with percentage increases in sales as follows: Germanics sales region, 29%; U.K., 28%; Italy, 26%; and France, 1%. Partially offsetting these sales increases was a sales decrease in Iberia of 5% for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

The sales growth throughout the Europe segment, where we sell direct, was primarily due to improved economic conditions, the continued growth of the WD-40 Smart Straw and 3-IN-ONE products, the timing of promotional activities and the ongoing growth of our base business. The sales decrease in Iberia was solely related to the unfavorable impact of changes in foreign currency exchange rates which more than offset the sales increase in local currency of 3% for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

In the countries in which we sell through local distributors, sales increased $0.7 million, or 7%, for the three months

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ended November 30, 2010 compared to the corresponding period of the prior fiscal year, driven by increased sales of WD-40 products in Eastern Europe primarily due to increased promotional activities. The distributor markets accounted for 36% of the total Europe segment sales for the three months ended November 30, 2010, compared to 38% for the corresponding period of the prior fiscal year.

Asia-Pacific

The following table summarizes net sales by product line for the Asia-Pacific segment (in thousands, except percentages):

	Three Months Ended November 30,			
			Change from Prior Year	
	2010	2009	Dollars	Percent
Multi-purpose maintenance products	$ 9,534	$ 5,599	$ 3,935	70%
Homecare and cleaning products	1,421	1,196	225	19%
Total	$ 10,955	$ 6,795	$ 4,160	61%
% of consolidated net sales	**14%**	**9%**		

In the Asia-Pacific segment, which includes Australia and Asia, sales increased to $11.0 million, up $4.2 million, or 61%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Changes in foreign currency exchange rates for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year had a favorable impact on sales. Sales for the three months ended November 30, 2010 translated at the exchange rates in effect for the corresponding period of the prior fiscal year would have been $10.6 million in the Asia-Pacific segment. Thus, on a constant currency basis, sales would have increased by $3.8 million, or 57%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Sales in Asia, which represented 68% of the total sales in the Asia-Pacific segment for the three months ended November 30, 2010, increased $3.4 million, or 86%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year reflecting improved economic conditions throughout the Asia region. The distributor markets in the Asia region experienced a sales increase of $2.3 million, or 75%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year, primarily due to the continued growth of the WD-40 products throughout the distributor markets, including those in the Philippines, Taiwan, Indonesia, Hong Kong and Singapore. Sales in China increased $1.1 million, or 123%, due to the ongoing growth of our base business and significant promotional activities aimed at building user awareness and distribution in the China region for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Sales in Australia increased $0.7 million, or 26%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year partially due to the favorable impact of changes in foreign currency exchange rates. On a constant currency basis, sales would have increased $0.4 million, or 16%, for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year primarily due to improved economic conditions and promotional activities with several key customers.

Gross Profit

Gross profit increased to $41.2 million for the three months ended November 30, 2010 compared to $39.9 million for the corresponding period of the prior fiscal year. As a percentage of net sales, gross profit decreased slightly to 50.9% for the three months ended November 30, 2010 compared to 51.4% for the corresponding period of the prior fiscal year due to a variety of items which offset each other, including costs associated with aerosol cans and oil-based materials, sales price increases and the level of discounts offered to our customers.

Lower costs of aerosol cans and sales price increases implemented on certain products during the three months ended November 30, 2010 positively affected gross margin by 0.7 percentage points and 0.1 percentage points, respectively.

During the three months ended November 30, 2010, advertising, promotional and other discounts decreased

compared to the corresponding period of the prior fiscal year, positively impacting gross margin by 0.5 percentage points. The decrease in such discounts was due to the fact that a lower percentage of sales during the three months ended November 30, 2010 was subject to promotional allowances compared to the corresponding period in the prior fiscal year. In general, the timing of advertising, promotional and other discounts, which are recorded as a reduction to sales, as well as shifts in product and customer mix, may cause fluctuations in gross margin from period to period. Examples of advertising, promotional and other discounts include coupon redemptions, consideration and allowances given to retailers for space and/or favorable display positions in their stores, co-operative advertising and promotional activity, volume discounts and other one-time or ongoing incentives.

More than offsetting the aforementioned favorable impacts to gross margin were the higher costs for petroleum-based materials and changes in foreign currency exchange rates which negatively impacted gross margin by 1.6 percentage points and 0.2 percentage points, respectively, for the three months ended November 30, 2010.

Note that our gross profits and gross margins may not be comparable to those of other reporting entities, since some entities include all costs related to distribution of their products in cost of products sold, whereas we exclude the portion associated with amounts paid to third parties for distribution to our customers from our contract packagers and include these costs in selling, general and administrative expenses. These costs totaled $3.4 million and $3.3 million for the three months ended November 30, 2010 and 2009, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the three months ended November 30, 2010 increased $1.8 million, or 9%, to $21.6 million from $19.8 million for the corresponding period of the prior fiscal year. As a percentage of net sales, SG&A expenses increased to 26.8% for the three months ended November 30, 2010 from 25.5% for the corresponding period of the prior fiscal year. The increase in SG&A expenses was largely attributable to higher employee-related costs, a higher level of expenses associated with travel and meetings and increased professional services costs. Employee-related costs, which include salaries, bonuses, profit sharing, stock-based compensation and other fringe benefits, increased $0.5 million for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. The increase in employee-related costs from period to period was partially due to annual compensation increases, which were implemented in the first quarter of the current fiscal year and not in the prior fiscal year, and higher staffing levels. Travel and meeting expenses increased $0.6 million due to a higher level of travel expenses associated with various sales meetings and activities in support of our strategic initiatives. Professional services costs increased $0.3 million due to higher legal and consulting fees and other miscellaneous expenses, which included broker sales commissions and insurance, increased by $0.4 million period over period. Changes in foreign currency exchange rates did not have a material impact on SG&A expenses for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

We continued our research and development investment in support of our focus on innovation and renovation of our products. Research and development costs for both the three months ended November 30, 2010 and 2009 were $1.2 million. Our product development team, Team Tomorrow, engages in consumer research, product development, current product improvement and testing activities. This team leverages its development capabilities by partnering with a network of outside resources including our current and prospective outsource suppliers.

Advertising and Sales Promotion Expenses

Advertising and sales promotion expenses for the three months ended November 30, 2010 increased $0.9 million, or 17%, to $6.1 million from $5.2 million for the corresponding period of the prior fiscal year. As a percentage of net sales, these expenses increased to 7.5% for the three months ended November 30, 2010 from 6.7% for the corresponding period of the prior fiscal year. The increase in advertising and sales promotion expenses was due to a higher level of advertising and promotional activities period over period, primarily in our Europe and Asia-Pacific segments. Changes in foreign currency exchange rates did not have a material impact on advertising and sales promotion expenses for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year. Investment in global advertising and sales promotion expenses for fiscal year 2011 is expected to be in the range of 6.5% to 8.0% of net sales.

As a percentage of net sales, advertising and sales promotion expenses may fluctuate period to period based upon the type of marketing activities we employ and the period in which the costs are incurred. The costs of certain promotional activities are required to be recorded as a reduction to sales, while others are recorded as advertising and sales promotion expenses. Total promotional costs recorded as a reduction to sales for the three months ended November 30, 2010 were $4.4 million compared to $4.9 million for the corresponding period of the prior fiscal year. Therefore, our total investment in advertising and sales promotion activities totaled $10.5 million and $10.1 million for the three months ended November 30, 2010 and 2009, respectively.

Amortization of Definite-lived Intangible Assets Expense

Amortization of our definite-lived intangible assets, which include the Carpet Fresh and X-14 trade names and the 1001 non-contractual customer relationships, was $182,000 and $185,000 for the three months ended November 30, 2010 and 2009, respectively.

Non-Operating Items

The following table summarizes non-operating income and expenses for our consolidated operations (in thousands):

	Three Months Ended November 30,		
	2010	2009	Change
Interest income	$ 55	$ 35	$ 20
Interest expense	$ 322	$ 524	$ (202)
Other income, net	$ 197	$ 114	$ 83
Provision for income taxes	$ 4,173	$ 4,941	$ (768)

Interest Income

Interest income increased for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year primarily due to higher average cash balances during the first quarter of fiscal year 2011 compared to the corresponding period of the prior fiscal year.

Interest Expense

Interest expense decreased $0.2 million for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year due to the lower principal balance on long-term borrowings resulting from the annual $10.7 million principal payment made in October 2010.

Other Income, Net

Other income, net increased $0.1 million for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year primarily due to higher foreign currency exchange gains for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Provision for Income Taxes

The provision for income taxes was 31.5% and 34.4% of income before income taxes for the three months ended November 30, 2010 and 2009, respectively. The decrease in the effective tax rate is partially due to provision adjustments of $0.1 million associated with our fiscal year 2010 federal tax return, which was timely filed during the current quarter. Historically, such provision adjustments have been recorded during the third fiscal quarter. In addition, the tax benefit associated with the qualified domestic production deduction increased by $0.1 million for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year, resulting in a lower effective tax rate for the current period.

Net Income

Net income was $9.1 million, or $0.53 per common share on a fully diluted basis for the three months ended November 30, 2010, compared to $9.4 million, or $0.56 per common share on a fully diluted basis for the corresponding period of the prior fiscal year. The change in foreign currency exchange rates did not have a material impact on net income for the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

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Liquidity and Capital Resources

Overview

The Company s financial condition and liquidity remain strong. Net cash provided by operations was $4.3 million for the three months ended November 30, 2010 compared to $16.3 million for the corresponding period of the prior fiscal year. We believe we continue to be well positioned to weather any uncertainty in the capital markets and global economy due to our strong balance sheet and efficient business model, along with our growing and diversified global revenues. We continue to manage all aspects of our business including, but not limited to, monitoring the financial health of our customers, suppliers and other third-party relationships, implementing gross margin enhancement strategies and developing new opportunities for growth.

Our principal sources of liquidity are our existing cash and cash equivalents, cash generated from operations and cash available from our $10 million revolving credit facility, which expires in October 2011, and is currently undrawn. At November 30, 2010, we had a total of $73.2 million in cash and cash equivalents. We believe that these existing cash and cash equivalents at November 30, 2010, the liquidity provided by our revolving credit facility and our anticipated cash flows from operations will be sufficient to meet the projected operating and capital requirements for our current business plans. We consider various factors when reviewing liquidity needs and plans for available cash on hand including: future debt, principal and interest payments, early debt repayment penalties, future capital expenditure requirements, future dividend payments (which are determined on a quarterly basis by the Company s Board of Directors), alternative investment opportunities, loan covenants and any other relevant considerations currently facing our business.

The outstanding indebtedness under our original $75 million, 7.28% fixed-rate term loan was $10.7 million as of November 30, 2010. The final payment on this term loan is due in October 2011.

Cash Flows

Operating Activities

Net cash provided by operating activities decreased $12.0 million to $4.3 million for the three months ended November 30, 2010 from $16.3 million for the corresponding period of the prior fiscal year. Cash provided by operating activities decreased for the three months ended November 30, 2010 compared to the corresponding period in the prior fiscal year primarily due to changes in operating assets and liabilities, primarily changes in accounts payable and accrued expenses and liabilities, trade accounts receivable, inventories and income taxes payable. Accounts payable and accrued expenses and liabilities decreased from period to period primarily due to the payment of fiscal year 2010 bonuses during the three months ended November 30, 2010 which were significantly higher than those paid in the corresponding period of the prior fiscal year. Trade accounts receivable provided less cash towards operations during the three months ended November 30, 2010 as compared to the corresponding period of the prior fiscal year due to the timing of payments by our customers. Inventories increased due to additional purchases in support of promotions in the upcoming quarters and purchases associated with innovation initiatives and/or supply chain initiatives. Income taxes payable decreased due to the timing of income tax accruals and the related payments during the three months ended November 30, 2010 compared to the corresponding period of the prior fiscal year.

Investing Activities

Net cash used for investing activities increased $0.4 million to $0.7 million for the three months ended November 30, 2010 from $0.3 million for the corresponding period of the prior fiscal year due primarily to higher capital expenditures. Capital expenditures during the three months ended November 30, 2010 were primarily for machinery and equipment, computer equipment and software.

Financing Activities

Net cash used for financing activities decreased $7.3 million to $6.6 million for the three months ended November 30, 2010 from $13.9 million for the corresponding period of the prior fiscal year due primarily to significantly higher proceeds from the issuance of common stock which were slightly offset by higher dividend payments from period to period.

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Commercial Commitments

We have relationships with various suppliers (contract manufacturers) who manufacture our products. Although we typically do not have definitive minimum purchase obligations included in the contract terms with the contract manufacturers, when such obligations have been included, they have been immaterial to date. Supply needs are communicated by us to our contract manufacturers, and we are committed to purchase the products produced based on orders and short-term projections, ranging from two to five months, provided to the contract manufacturers. We are also obligated to purchase obsolete or slow-moving inventory from our contract manufacturers and have done so in the past under these commitments, the amounts of which have been immaterial.

In addition to the commitments to purchase products from contract manufacturers described above, we may also enter into commitments with other manufacturers to purchase finished goods and components to support innovation initiatives and/or supply chain initiatives. As of November 30, 2010, no such commitments were outstanding.

Share Repurchase Plan

On December 8, 2009, the Company s Board of Directors approved a share buy-back plan. Under the plan, which was in effect for up to twelve months from the date of approval, we are authorized to acquire up to $15.0 million of our outstanding shares. During the period from December 8, 2009 through the share buy-back plan s expiration date of December 8, 2010, we did not purchase any shares under this share buy-back plan.

On December 14, 2010, the Company s Board of Directors approved a new share buy-back plan. Under the plan, which is in effect through December 13, 2011, we are authorized to acquire up to $25.0 million of our outstanding shares on such terms and conditions as may be acceptable to our Chief Executive Officer or Chief Financial Officer and subject to lender approval from Prudential Capital and in compliance with all laws and regulations applicable thereto.

Dividends

On December 14, 2010, the Company s Board of Directors declared a cash dividend of $0.27 per share payable on January 31, 2011 to shareholders of record on January 7, 2011. Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, alternative investment opportunities and loan covenants.

Income Taxes

The total amount of unrecognized tax benefits was $3.6 million as of November 30, 2010 and August 31, 2010, of which $1.1 million would impact the effective tax rate if recognized. The gross liability for income taxes related to unrecognized tax benefits is included in other long-term liabilities in our condensed consolidated balance sheets.

The total balance of accrued interest related to uncertain tax positions was $0.3 million and $0.2 million as of November 30, 2010 and August 31, 2010, respectively. The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. There were no material interest or penalties included in income tax expense for each of the three month periods ended November 30, 2010 and 2009.

We are subject to taxation in the U.S. and in various state and foreign jurisdictions. Due to expired statutes, our federal income tax returns for years prior to fiscal year 2007 are not subject to examination by the U.S. Internal Revenue Service. Generally, for the majority of state and foreign jurisdictions where we do business, periods prior to fiscal year 2006 are no longer subject to examination. We are currently under audit in various state and local jurisdictions for fiscal years 2005 through 2008. We have estimated that up to $0.4 million of unrecognized tax benefits related to income tax positions may be affected by the resolution of tax examinations or expiring statutes of limitation within the next twelve months. Audit outcomes and the timing of settlements are subject to significant uncertainty.

Critical Accounting Policies

Our discussion and analysis of our operating results and financial condition is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

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Critical accounting policies are those that involve subjective or complex judgments, often as a result of the need to make estimates. The following areas all require the use of judgments and estimates: revenue recognition and sales incentives, allowance for doubtful accounts, accounting for income taxes and valuation of goodwill and indefinite-lived intangible assets. Estimates in each of these areas are based on historical experience and various judgments and assumptions that we believe are appropriate. Actual results may differ from these estimates.

Our critical accounting policies are discussed in more detail in Part II Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 2 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010, which was filed with the SEC on October 18, 2010.

Recently Issued Accounting Standards

In January 2010, the FASB issued updated authoritative guidance related to fair value measurements which requires certain new disclosures related to activities in Level 3 fair value measurements, including purchases, sales, issuances and settlements. This updated authoritative guidance is effective for annual periods beginning after December 15, 2010. We do not expect the adoption of this updated authoritative guidance to have a material impact on our consolidated financial statement disclosures.

In July 2010, the FASB issued updated authoritative guidance related to financing receivables which enhances the disclosure requirements about the credit quality and related allowance for credit losses of financing receivables. This updated authoritative guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. We have evaluated this updated authoritative guidance, and we do not expect it to impact our consolidated financial statement disclosures.

In December 2010, the FASB issued updated authoritative guidance related to when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Per this updated authoritative guidance, when a reporting unit has a zero or negative carrying amount, Step 2 of the goodwill impairment test will be performed if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors to be considered are consistent with the current interim impairment triggers for goodwill. Upon adoption, an entity will perform Step 2 of the goodwill impairment test if it is more likely than not that goodwill is impaired. Furthermore, any impairment identified at the time of adoption will be recognized as a cumulative effect adjustment to beginning retained earnings. We are required to apply these new requirements in our fiscal year beginning after December 15, 2010. We have evaluated this updated authoritative guidance, and we do not expect it to have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Part II Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010, which was filed with the SEC on October 18, 2010.

Item 4. Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (Exchange Act). The term disclosure controls and procedures means controls and other procedures of a Company that are designed to ensure the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures. The Company s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company s disclosure controls and procedures as of November 30, 2010, the end of the period covered by this report (the Evaluation Date), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in the Company s reports filed under the Exchange Act. Although management believes the Company s existing disclosure controls and procedures are adequate to enable the Company to comply with its disclosure obligations, management continues to review and update such controls and procedures. The Company has a disclosure committee, which consists of certain members of the Company s senior management.

There were no changes to the Company s internal control over financial reporting that occurred during the Company s most recent fiscal quarter that materially affected, or would be reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to various claims, legal actions and complaints, including product liability litigation, arising in the ordinary course of business.

On October 3, 2010, a legal action was filed against the Company in the United States Federal Court for the Eastern District of Texas (*Promote Innovation, LLC v. WD-40 Company*). The complaint is a *qui tam* action brought by the plaintiff on behalf of the United States of America for alleged violation of Section 292 of the Patent Act (Title 35 U.S. Code, Section 292) for false patent marking. The complaint alleges that the Company included reference to an expired patent on certain product packaging, specifically including 2000 Flushes brand products, with an intent to deceive the public. The complaint seeks to recover a civil monetary fine of $500 per false marking offense, or an alternative amount determined by the court, one-half of which is to be paid to the United States. The Company intends to vigorously defend this claim of intentional false patent marking. At the present time, the Company is unable to estimate the extent of possible loss or a range of possible loss with respect to this claim.

On June 18, 2010, a legal action was filed against the Company in the Superior Court of California for the County of Orange (*Andrea Burns v. WD-40 Company*). The complaint seeks class action status and alleges that the Company misrepresented that its 2000 Flushes Bleach and 2000 Flushes Blue Plus Bleach automatic toilet bowl cleaners (ATBCs) are safe for plumbing systems and unlawfully omitted to advise consumers regarding the allegedly damaging effect the use of the ATBCs has on toilet parts made of plastic and rubber. This action is substantively similar to the *Drimmer v. WD-40 Company* case that was filed by the same plaintiff law firm in April 2006 in the United States District Court, Southern District of California. In August 2008, the Company defeated class certification in that case, a decision that was upheld by the Ninth Circuit Court of Appeals in September 2009, and the case was dismissed with prejudice in March 2010. As in the *Drimmer* case, the Company intends to vigorously defend against the *Burns* case. If, however, class action certification is granted in the *Burns* case, it is reasonably possible that the outcome could have a material adverse effect on the Company s consolidated financial position, results of operations and cash flows. There is not sufficient information available at this time to determine the likelihood that class certification will be granted or the extent of possible loss if class certification is granted.

Since 2004, the Company has been named as a defendant in lawsuits brought by a group of attorneys on behalf of individual plaintiffs who assert that exposure to products that allegedly contain benzene is a cause of certain cancers (the Benzene Lawsuits). The Company is one of many defendants in these legal proceedings whose products are alleged to contain benzene. However, the Company specifies that its suppliers provide constituent ingredients free of benzene. The Company believes its products have always been formulated without containing benzene and the facts developed in litigation to date support this position. The plaintiffs in the Benzene Lawsuits typically seek damages in unspecified amounts for injuries or death attributable to a form of cancer linked to exposure to benzene. The Company is unable to quantify the total amount of damages asserted by the plaintiffs in the Benzene Lawsuits. Except for self-insured retention amounts applicable to each separately filed lawsuit, the Company expects that the Benzene Lawsuits will be adequately covered by insurance and will not have a material impact on the Company s consolidated financial position or results of operations. The Company is vigorously defending these lawsuits. The Company is unable to assess the expected cost of defense of these lawsuits in future periods. If the number of Benzene Lawsuits filed against the Company increases, it is reasonably possible that such costs of defense may materially affect the Company s consolidated financial position, results of operations and cash flows in future periods.

During the quarter ended November 30, 2010, there were no material developments with respect to legal proceedings that were pending as of the prior fiscal year end and disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2010, which was filed with the SEC on October 18, 2010.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010, which was filed with the SEC on October 18, 2010.

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Item 6. Exhibits

Exhibit No.	Description
3(a)	Certificate of Incorporation, incorporated by reference from the Registrant s Form 10-K filed October 25, 2007, Exhibit 3(a) thereto.
3(b)	Bylaws, incorporated by reference from the Registrant s Form 10-Q filed January 9, 2009, Exhibit 3(b) thereto.
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	WD-40 COMPANY	
	Registrant	
Date: January 10, 2011	By:	/s/ GARRY O. RIDGE **Garry O. Ridge** **President and Chief Executive Officer** **(Principal Executive Officer)**
	By:	/s/ JAY W. REMBOLT **Jay W. Rembolt** **Vice President and Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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