

OIL DRI CORP OF AMERICA
Form 10-Q
December 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d)
of the
Securities Exchange Act of 1934
For the Quarterly Period Ended October 31, 2014
- or
- Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-12622

OIL-DRI CORPORATION OF AMERICA
(Exact name of the registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

36-2048898
(I.R.S. Employer
Identification No.)

410 North Michigan Avenue, Suite 400
Chicago, Illinois
(Address of principal executive offices)

60611-4213
(Zip Code)

The registrant's telephone number, including area code: (312) 321-1515

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of October 31, 2014.

Common Stock – 5,014,942 Shares and Class B Stock – 2,064,994 Shares

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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including, but not limited to, those under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those statements elsewhere in this report and other documents that we file with the Securities and Exchange Commission (“SEC”), contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “assume,” and variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2014. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

TRADEMARK NOTICE

Cat’s Pride, Fresh & Light and Oil-Dri are registered trademarks of Oil-Dri Corporation of America.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

| | (unaudited) | |
|--|---------------------|------------------|
| | October 31, 2014 | July 31, 2014 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$8,406 | \$16,230 |
| Restricted cash | 100 | 129 |
| Short-term investments | 1,901 | 2,640 |
| Accounts receivable, less allowance of \$722 and \$707 at October 31, 2014 and July 31, 2014, respectively | 31,893 | 30,997 |
| Inventories | 24,332 | 24,483 |
| Deferred income taxes | 1,570 | 1,570 |
| Prepaid repairs expense | 3,585 | 3,722 |
| Prepaid expenses and other assets | 2,574 | 3,745 |
| Total Current Assets | 74,361 | 83,516 |
| Property, Plant and Equipment | | |
| Cost | 203,820 | 199,095 |
| Less accumulated depreciation and amortization | (125,608) | (124,199) |
| Total Property, Plant and Equipment, Net | 78,212 | 74,896 |
| Other Assets | | |
| Goodwill | 9,034 | 9,034 |
| Trademarks and patents, net of accumulated amortization of \$303 and \$420 at October 31, 2014 and July 31, 2014, respectively | 694 | 660 |
| Debt issuance costs, net of accumulated amortization of \$383 and \$522 at October 31, 2014 and July 31 2014, respectively | 219 | 243 |
| Licensing agreements and non-compete agreements, net of accumulated amortization of \$1,192 and \$1,145 at October 31, 2014 and July 31, 2014, respectively | 108 | 155 |
| Customer list, net of accumulated amortization of \$1,097 at October 31, 2014 and \$764 at July 31, 2014, respectively | 6,688 | 7,020 |
| Deferred income taxes | 4,285 | 4,448 |
| Other | 7,126 | 6,232 |
| Total Other Assets | 28,154 | 27,792 |
| Total Assets | \$180,727 | \$186,204 |

The accompanying notes are an integral part of the condensed Consolidated Financial Statements.

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

| | (unaudited) | |
|---|------------------|------------------|
| | October 31, | July 31, |
| | 2014 | 2014 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of notes payable | \$3,483 | \$3,500 |
| Accounts payable | 5,599 | 7,352 |
| Dividends payable | 1,313 | 1,311 |
| Accrued expenses: | | |
| Salaries, wages and commissions | 3,527 | 4,448 |
| Trade promotions and advertising | 2,842 | 2,182 |
| Freight | 2,446 | 2,504 |
| Other | 6,733 | 8,203 |
| Total Current Liabilities | 25,943 | 29,500 |
| Noncurrent Liabilities | | |
| Notes payable | 15,417 | 18,900 |
| Deferred compensation | 9,528 | 9,267 |
| Pension and postretirement benefits | 22,531 | 22,273 |
| Other | 1,961 | 1,956 |
| Total Noncurrent Liabilities | 49,437 | 52,396 |
| Total Liabilities | 75,380 | 81,896 |
| Stockholders' Equity | | |
| Common Stock, par value \$.10 per share, issued 7,932,093 shares at October 31, 2014 and 7,917,393 shares at July 31, 2014 | 793 | 792 |
| Class B Stock, par value \$.10 per share, issued 2,389,735 shares at October 31, 2014 and 2,394,735 shares at July 31, 2014 | 239 | 239 |
| Additional paid-in capital | 33,403 | 33,130 |
| Restricted unearned stock compensation | (2,120) | (2,225) |
| Retained earnings | 136,846 | 136,039 |
| Accumulated other comprehensive income: | | |
| Unrealized gain on marketable securities | — | 114 |
| Pension and postretirement benefits | (8,533) | (8,632) |
| Cumulative translation adjustment | 170 | 255 |
| Total accumulated other comprehensive loss | (8,363) | (8,263) |
| Less Treasury Stock, at cost (2,917,151 Common and 324,741 Class B shares at October 31, 2014 and 2,915,651 Common and 324,741 Class B shares at July 31, 2014) | (55,451) | (55,404) |
| Total Stockholders' Equity | 105,347 | 104,308 |
| Total Liabilities & Stockholders' Equity | \$180,727 | \$186,204 |

The accompanying notes are an integral part of the condensed Consolidated Financial Statements.

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES
Condensed Consolidated Statements of Income and Retained Earnings
(in thousands, except for per share amounts)

| | (unaudited) | |
|--|----------------------------|-----------|
| | For the Three Months Ended | |
| | October 31, | |
| | 2014 | 2013 |
| Net Sales | \$66,044 | \$63,546 |
| Cost of Sales | (52,275 |) (47,046 |
| Gross Profit | 13,769 | 16,500 |
| Selling, General and Administrative Expenses | (10,609 |) (12,158 |
| Income from Operations | 3,160 | 4,342 |
| Other Income (Expense) | | |
| Interest expense | (382 |) (424 |
| Interest income | 3 | 10 |
| Other, net | 84 | (35 |
| Total Other Income (Expense), Net | (295 |) (449 |
| Income Before Income Taxes | 2,865 | 3,893 |
| Income taxes | (745 |) (1,006 |
| Net Income | 2,120 | 2,887 |
| Retained Earnings: | | |
| Balance at beginning of period | 136,039 | 132,750 |
| Cash dividends declared and treasury stock issuances | (1,313 |) (1,255 |
| Balance at end of period | \$136,846 | \$134,382 |
| Net Income Per Share | | |
| Basic Common | \$0.32 | \$0.44 |
| Basic Class B | \$0.24 | \$0.33 |
| Diluted | \$0.30 | \$0.41 |
| Average Shares Outstanding | | |
| Basic Common | 4,948 | 4,955 |
| Basic Class B | 2,009 | 1,992 |
| Diluted | 7,016 | 6,973 |

The accompanying notes are an integral part of the condensed Consolidated Financial Statements.

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES
 Condensed Consolidated Statements of Comprehensive Income
 (in thousands of dollars)

| | (unaudited) | |
|--|----------------------------|---------|
| | For the Three Months Ended | |
| | October 31, | |
| | 2014 | 2013 |
| Net Income | \$2,120 | \$2,887 |
| Other Comprehensive Income (Loss): | | |
| Unrealized loss on marketable securities | (114 |) (8 |
| Pension and postretirement benefits (net of tax) | 99 | 57 |
| Cumulative translation adjustment | (85 |) (67 |
| Other Comprehensive (Loss) | (100 |) (18 |
| Total Comprehensive Income | \$2,020 | \$2,869 |

The accompanying notes are an integral part of the condensed Consolidated Financial Statements.

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

| | (unaudited) | |
|---|----------------------------|----------|
| | For the Three Months Ended | |
| | October 31, | |
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$2,120 | \$2,887 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,920 | 2,231 |
| Amortization of investment net discount | (1 |) (1 |
| Non-cash stock compensation expense | 308 | 241 |
| Excess tax benefits for share-based payments | (10 |) (13 |
| Deferred income taxes | 72 | 37 |
| Provision for bad debts and cash discounts | 44 | 20 |
| Loss (Gain) on the sale of fixed assets | 33 | (13 |
| Gain on sale of marketable securities | (105 |) — |
| (Increase) Decrease in assets: | | |
| Accounts receivable | (940 |) (604 |
| Inventories | 151 | (1,621 |
| Prepaid expenses | 1,308 | (496 |
| Other assets | (1,173 |) (4 |
| Increase (Decrease) in liabilities: | | |
| Accounts payable | (1,632 |) 367 |
| Accrued expenses | (2,000 |) (4,313 |
| Deferred compensation | 261 | 251 |
| Pension and postretirement benefits | 357 | 277 |
| Other liabilities | 35 | 102 |
| Total Adjustments | (372 |) (3,539 |
| Net Cash Provided by (Used in) Operating Activities | 1,748 | (652 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (5,717 |) (3,382 |
| Proceeds from sale of property, plant and equipment | 15 | 14 |
| Advance payment for acquisition | — | (800 |
| Restricted cash | 29 | — |
| Purchases of short-term investments | (700 |) (5,272 |
| Dispositions of short-term investments | 1,440 | 8,545 |
| Proceeds from sale of marketable securities | 108 | — |
| Net Cash Used in Investing Activities | (4,825 |) (895 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | (3,500 |) (3,500 |
| Dividends paid | (1,311 |) (1,236 |
| Proceeds from issuance of treasury stock | — | 39 |
| Proceeds from issuance of common stock | 15 | 12 |
| Excess tax benefits for share-based payments | 10 | 13 |
| Net Cash Used in Financing Activities | (4,786 |) (4,672 |

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| | | | |
|--|---------|----------|---|
| Effect of exchange rate changes on cash and cash equivalents | 39 | (40 |) |
| Net Decrease in Cash and Cash Equivalents | (7,824 |) (6,259 |) |
| Cash and Cash Equivalents, Beginning of Period | 16,230 | 24,035 | |
| Cash and Cash Equivalents, End of Period | \$8,406 | \$17,776 | |

The accompanying notes are an integral part of the condensed Consolidated Financial Statements.

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OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements

(Unaudited)

1. BASIS OF STATEMENT PRESENTATION

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the Consolidated Financial Statements and related notes for the year ended July 31, 2014 included in our Annual Report on Form 10-K filed with the SEC.

The unaudited condensed Consolidated Financial Statements include the accounts of Oil-Dri Corporation of America and its subsidiaries. All significant intercompany transactions are eliminated. Except as otherwise indicated herein or as the context otherwise requires, references to “Oil-Dri,” the “Company,” “we,” “us” or “our” refer to Oil-Dri Corporation of America and its subsidiaries.

The unaudited condensed Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three months ended October 31, 2014 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2015.

The preparation of the unaudited condensed Consolidated Financial Statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates and assumptions are revised periodically. Actual results could differ from these estimates.

We recognize revenue when risk of loss and title are transferred under the terms of our sales agreements with customers at a fixed and determinable price and collection of payment is probable. Trade promotion reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. Such trade promotion costs are netted against sales. Sales returns and allowances are not material.

Selling, general and administrative expenses include salaries, wages and benefits associated with staff outside the manufacturing and distribution functions, all advertising and marketing-related costs, any miscellaneous trade spending expenses not required to be included in net sales, research and development costs, depreciation and amortization related to assets outside the manufacturing and distribution process and all other non-manufacturing and non-distribution expenses.

We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific customer accounts. A customer account is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment.

We mine sorbent materials on property that we either own or lease as part of our overall operations. A significant part of our overall mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material used in a majority of our production processes. These stripping costs are

treated as a variable inventory production cost and are included in cost of sales in the period they are incurred. We defer and amortize the pre-production overburden removal costs associated with opening a new mine.

Additionally, it is our policy to capitalize the purchase cost of land and mineral rights, including associated legal fees, survey fees and real estate fees. The costs of obtaining mineral patents, including legal fees and drilling expenses, are also capitalized. Pre-production development costs on new mines and any prepaid royalties that may be offset against future royalties due upon extraction of the minerals are also capitalized. All exploration related costs are expensed as incurred.

We perform ongoing reclamation activities during the normal course of our overburden removal. As overburden is removed from a mine site, it is hauled to previously mined sites and is used to refill older sites. This process allows us to continuously reclaim older mine sites and dispose of overburden simultaneously, thereby minimizing the costs associated with the reclamation process.

2. NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

The tangible property regulations ("repair regulations") released by the Internal Revenue Service in September 2013 under Sections 162(a) and 263(a) of the Internal Revenue Code were effective for our tax year beginning August 1, 2014. The repair regulations provide guidance regarding the timing of deductions and the capitalization of amounts paid to acquire, produce or improve tangible property. We are currently evaluating our accounting policies to ensure compliance with the requirements of the repair regulations.

Recently Issued Regulations

In May 2014, the FASB issued guidance under ASC 250, Revenue from Contract with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Transition options include either a full or modified retrospective approach and early adoption is not permitted. This guidance will be effective at the beginning of our first quarter of fiscal 2017. We are currently evaluating the impact of the adoption of these requirement on our Consolidated Financial Statements.

In August 2014, the FASB issued guidance under ASC 205, Presentation of Financial Statements - Going Concern, which defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance will be effective for our fiscal year ended July 31, 2017. We are currently evaluating the impact of the adoption of these requirement on our Consolidated Financial Statements.

3. INVENTORIES

The composition of inventories is as follows (in thousands):

| | October 31, 2014 | July 31, 2014 |
|-------------------|---------------------|------------------|
| Finished goods | \$13,659 | \$14,326 |
| Packaging | 5,443 | 5,402 |
| Other | 5,230 | 4,755 |
| Total Inventories | \$24,332 | \$24,483 |

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a detailed review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The obsolescence reserve not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at October 31, 2014 and July 31, 2014 were \$484,000 and \$390,000, respectively.

4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are prioritized into categories based on the lowest level of input that is significant to the fair value measurement. The categories in the hierarchy are as follows:

Level 1: Financial assets and liabilities whose values are based on quoted market prices in active markets for identical assets or liabilities.

Level 2: Financial assets and liabilities whose values are based on:

- 1) Quoted prices for similar assets or liabilities in active markets.
- 2) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- 3) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and liabilities whose values are based on valuation techniques that require inputs that are unobservable. These inputs may reflect estimates of the assumptions that market participants would use in valuing the financial assets and liabilities.

The following table summarizes our financial assets and liabilities that were measured at fair value by level within the fair value hierarchy:

| | Fair Value at October 31, 2014 (in thousands) | | Fair Value at July 31, 2014 (in thousands) | |
|------------------------------|--|---------|---|---------|
| | Total | Level 1 | Total | Level 1 |
| Assets | | | | |
| Cash equivalents | \$336 | \$336 | \$5,728 | \$5,728 |
| Marketable equity securities | — | — | 117 | 117 |

Cash equivalents were classified as Level 1 of the fair value hierarchy because they were valued using quoted market prices in active markets. These cash instruments are primarily money market mutual funds and are included in cash and cash equivalents on the condensed Consolidated Balance Sheets.

Marketable equity securities were valued using quoted market prices in active markets and as such are classified as Level 1 in the fair value hierarchy. We owned stock in one publicly traded company at July 31, 2014, which was included in other assets on the condensed Consolidated Balance Sheets. We decided to sell this stock in the first quarter of fiscal 2015 after the company whose stock we owned was acquired by another company.

Short-term investments on the condensed Consolidated Balance Sheets included U.S. Treasury securities and certificates of deposit. We intend and have the ability to hold our short-term investments to maturity; therefore, these investments were reported at amortized cost on the condensed Consolidated Balance Sheets, which approximated fair value as of October 31, 2014 and July 31, 2014. These balances are excluded from the above table.

Accounts receivable and accounts payable balances on the condensed Consolidated Balance Sheets approximated their fair values at October 31, 2014 and July 31, 2014 due to the short maturity and nature of those balances; therefore, these balances are excluded from the above table.

Prepaid expenses and other assets on the condensed Consolidated Balance Sheets included a receivable related to our acquisition of certain assets of MFM Industries Inc. ("MFM") in the second quarter of fiscal 2014. The receivable represents the estimated amount due to us upon the sale of the real property retained by MFM. As of October 31, 2014, MFM was awaiting finalization of an agreement to sell the land to a third party. Our receivable was reduced by \$141,000 to a balance of \$114,500 during the first quarter of fiscal 2015 to reflect the current estimate of the value we

will receive from this pending land sale. This receivable is excluded from the above table.

Notes payable on the condensed Consolidated Balance Sheets are carried at the face amount of future maturities and are excluded from the above table. The estimated fair value of notes payable, including current maturities, was \$20,020,000 and \$23,940,000 as of October 31, 2014 and July 31, 2014, respectively. Our debt does not trade on a daily basis in an active market, therefore the fair value estimate is based on market observable borrowing rates currently available for debt with similar terms and average maturities and is classified as Level 2.

We apply fair value techniques on a non-recurring basis associated with: (1) valuing potential impairment loss related to goodwill, trademarks and other indefinite-lived intangible assets and (2) valuing potential impairment loss related to long-lived assets. See Note 5 for further information about goodwill and other intangible assets.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible amortization expense was \$420,000 and \$88,000 in the first quarter of fiscal 2015 and 2014, respectively. Estimated intangible amortization for the remainder of fiscal 2015 is \$1,188,000. Estimated intangible amortization for the next five fiscal years is as follows (in thousands):

| | |
|------|---------|
| 2016 | \$1,416 |
| 2017 | \$1,188 |
| 2018 | \$979 |
| 2019 | \$792 |
| 2020 | \$621 |

We have one acquired trademark recorded at \$376,000 that was determined to have an indefinite life and is not amortized.

Our annual goodwill impairment analysis was performed in the first quarter of fiscal 2015 and did not indicate any impairment.

6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The components of net periodic pension and postretirement health benefit costs were as follows:

| | Pension Benefits (in thousands) For the Three Months Ended October 31, | |
|--------------------------------|---|-------|
| | 2014 | 2013 |
| Service cost | \$432 | \$360 |
| Interest cost | 468 | 436 |
| Expected return on plan assets | (470) | (429) |
| Amortization of: | | |
| Prior service costs | 2 | 3 |
| Other actuarial loss | 150 | 78 |
| Net periodic benefit cost | \$582 | \$448 |
| | Postretirement Health Benefits (in thousands) For the Three Months Ended October 31, | |
| | 2014 | 2013 |
| Service cost | \$33 | \$30 |
| Interest cost | 27 | 29 |
| Amortization of: | | |
| Net transition obligation | — | 4 |
| Prior service costs | (2) | (1) |
| Other actuarial loss | 9 | 7 |
| Net periodic benefit cost | \$67 | \$69 |

The postretirement health plan is an unfunded plan. We pay insurance premiums and claims from our assets.

The pension plan is funded based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum contribution required and the maximum contribution allowed under applicable regulations. We contributed \$230,000 to our pension plan during the first quarter ended October 31, 2014. We estimate contributions will be \$1,626,000 for the remainder of fiscal 2015. See Item 3. "Quantitative and Qualitative Disclosures About Market Risk" for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

Assumptions used in the previous calculations were as follows:

| | Pension Benefits | | Postretirement Health Benefits | | |
|---|--|--------|--------------------------------|--------|---|
| | For the Three Months Ended October 31, | | | | |
| | 2014 | 2013 | 2014 | 2013 | |
| Discount rate for net periodic benefit cost | 4.28 | % 4.80 | % 3.87 | % 4.80 | % |
| Rate of increase in compensation levels | 3.50 | % 3.50 | % — | — | |
| Long-term expected rate of return on assets | 7.50 | % 7.50 | % — | — | |

The medical cost trend assumption for postretirement health benefits was 7.5%. The graded trend rate is expected to decrease to an ultimate rate of 5.0% in fiscal 2024.

7. OPERATING SEGMENTS

We have two operating segments: (1) Retail and Wholesale Products Group and (2) Business to Business Products Group. These operating segments are managed separately and each segment's major customers have different characteristics. The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet specialty retail outlets, dollar stores, retail grocery stores, distributors of industrial cleanup and automotive products, environmental service companies and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products.

Our operating segments are also our reportable segments. Net sales and operating income for each segment are provided below. Revenues by product line are not provided because it would be impracticable to do so. The accounting policies of the segments are the same as those described in Note 1 of the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

We do not rely on any segment asset allocations and we do not consider them meaningful because of the shared nature of our production facilities; however, we have estimated the segment asset allocations below for those assets for which we can reasonably determine. The unallocated asset category is the remainder of our total assets. The asset allocation is estimated and is not a measure used by our chief operating decision maker about allocating resources to the operating segments or in assessing their performance. The corporate expenses line includes certain unallocated expenses, including primarily salaries, wages and benefits, purchased services, rent, utilities and depreciation and amortization associated with corporate functions such as research and development, information systems, finance, legal, human resources and customer service. Corporate expenses also include the estimated annual incentive plan bonus accrual.

| | Assets | |
|-------------------------------|---------------------------------------|---------------|
| | October 31, 2014 (in thousands) | July 31, 2014 |
| Business to Business Products | \$55,018 | \$53,823 |

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| | | |
|-------------------------------|-----------|-----------|
| Retail and Wholesale Products | 97,777 | 95,712 |
| Unallocated Assets | 27,932 | 36,669 |
| Total Assets | \$180,727 | \$186,204 |

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| | For the Three Months Ended October 31, | | | |
|-------------------------------|--|----------|---------|---------|
| | Net Sales | | Income | |
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Business to Business Products | \$23,648 | \$23,915 | \$6,871 | \$7,651 |
| Retail and Wholesale Products | 42,396 | 39,631 | 886 | 1,275 |
| Total Sales | \$66,044 | \$63,546 | | |
| Corporate Expenses | | | (4,597) | (4,584) |
| Income from Operations | | | 3,160 | 4,342 |
| Total Other Expense, Net | | | (295) | (449) |
| Income before Income Taxes | | | 2,865 | 3,893 |
| Income Taxes | | | (745) | (1,006) |
| Net Income | | | \$2,120 | \$2,887 |

8. STOCK-BASED COMPENSATION

We determine the fair value of stock options and restricted stock issued under our long term incentive plans as of the grant date. We recognize the related compensation expense over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional service to the Company.

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan (the "2006 Plan") permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based and cash-based awards. Our employees and outside directors are eligible to receive grants under the 2006 Plan. The total number of shares of stock subject to grants under the 2006 Plan may not exceed 937,500. Stock options have been granted to our outside directors with a vesting period of one year and stock options granted to employees generally vest 25% two years after the grant date and in each of the three following anniversaries of the grant date. In addition, restricted shares have been issued under the 2006 Plan as described in the restricted stock section below.

Stock Options

A summary of stock option transactions as of October 31, 2014 is shown below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---------------------|--|---|------------------------------|
| | (in thousands) | | (Years) | (in thousands) |
| Options outstanding and exercisable, July 31, 2014 | 44 | \$15.43 | 1.9 | \$611 |
| Exercised | (1) | \$15.37 | | \$13 |
| Options outstanding and exercisable, October 31, 2014 | 43 | \$15.43 | 1.7 | \$642 |

The amount of cash received from the exercise of stock options during the first quarter of fiscal 2015 was \$15,000 and the related tax benefit was \$3,000. The amount of cash received from the exercise of stock options during the first quarter of fiscal 2014 was \$51,000 and the related tax benefit was \$24,000.

No stock options were granted in the first three months of either fiscal 2015 or 2014.

Restricted Stock

All of our non-vested restricted stock as of October 31, 2014 was issued under the 2006 Plan with vesting periods between two years and five years.

Under the 2006 Plan, 9,000 and 22,000 restricted shares of Common Stock were granted in the first quarter of fiscal years 2015 and 2014, respectively. Also in the first quarter of fiscal 2014, 10,000 shares of Common Class B Stock were granted.

Included in our stock-based compensation expense in the first quarter of fiscal years 2015 and 2014 was \$308,000 and \$241,000, respectively, related to non-vested restricted stock.

A summary of restricted stock transactions under the plan is shown below:

| | Restricted Shares (in thousands) | Weighted Average Grant Date Fair Value |
|---|--|---|
| Non-vested restricted stock outstanding at July 31, 2014 | 122 | \$27.31 |
| Granted | 9 | \$28.54 |
| Vested | (25 |) \$21.82 |
| Forfeitures | (2 |) \$31.15 |
| Non-vested restricted stock outstanding at October 31, 2014 | 104 | \$28.68 |

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income by component as of October 31, 2014 (in thousands):

| | Unrealized Gain (Loss) on Marketable Securities | Pension and Postretirement Health Benefits | Cumulative Translation Adjustment | Total Accumulated Other Comprehensive Income |
|---|--|--|---|--|
| Balance as of July 31, 2014 | \$114 | \$(8,632 |) \$255 | \$(8,263 |
| Other comprehensive loss before reclassifications, net of tax | (9 |) — | (85 |) (94 |
| Amounts reclassified from accumulated other comprehensive income, net of tax | (105 |) a) 99 | b) — | (6 |
| Net current-period other comprehensive income (loss), net of tax | (114 |) 99 | (85 |) (100 |
| Balance as of October 31, 2014 | \$— | \$(8,533 |) \$170 | \$(8,363 |

a) Amount is included in the condensed Consolidated Statements of Income on the Other, net line item.

b) Amount is net of tax expense of \$60,000. Amounts are included in the components of net periodic benefit cost for the pension and postretirement health plans. See Note 6 for further information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included herein and our Consolidated Financial Statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Forward-Looking Statements" and Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

OVERVIEW

We develop, mine, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other clay-like sorbent materials. Our principal products include agricultural and horticultural chemical carriers, animal health and nutrition products, cat litter, fluids purification and filtration bleaching clays, industrial and automotive floor absorbents and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end consumer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable operating segments based on the different characteristics of our two primary customer groups: Retail and Wholesale Products Group and Business to Business Products Group, as described in Note 7 of the notes to condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED OCTOBER 31, 2014 COMPARED TO THREE MONTHS ENDED OCTOBER 31, 2013

CONSOLIDATED RESULTS

Consolidated net sales for the three months ended October 31, 2014 were \$66,044,000, an increase of 4% from net sales of \$63,546,000 for the three months ended October 31, 2013. Consolidated net income for the first quarter of fiscal 2015 was \$2,120,000, compared to \$2,887,000 for the first quarter of fiscal 2014. Operating income declined for both our Retail and Wholesale Products Group and our Business to Business Products Group. Diluted net income per share was \$0.30 for the first quarter of fiscal 2015, compared to \$0.41 for the first quarter of fiscal 2014.

Consolidated net sales for the first quarter of fiscal 2015 improved due to higher sales volume for cat litter and industrial absorbent products in our Retail and Wholesale Products Group, which more than offset lower sales in our Business to Business Products Group.

Our consolidated gross profit as a percentage of net sales for the first quarter of fiscal 2015 was 21%, which was lower than the 26% reported for the first quarter of fiscal 2014. Gross profit declined due primarily to the mix of products sold, including the increased sales of private label cat litter, and higher packaging costs, as described by operating segment below. Material costs were comparable to the prior year due primarily to a 5% decline in the cost of natural gas used to operate kilns that dry our clay, which offset an increase in non-fuel manufacturing cost per ton, including labor, benefits and depreciation.

Selling, general and administrative expenses as a percentage of net sales for the first quarter of fiscal 2015 were 16%, compared to 19% for the first quarter of fiscal 2014. The discussion of the segments' operating incomes below describes the change in the selling, general and administrative expenses that were allocated to the operating segments, particularly lower advertising costs in the Retail and Wholesale Products Group. The remaining unallocated corporate expenses in the first quarter of fiscal 2015 included a lower estimated annual incentive bonus accrual. The incentive bonus expense was based on performance targets that were established for the fiscal year.

Interest expense was \$42,000 lower for the first quarter of fiscal 2015 compared to the same period in fiscal 2014 due primarily to a reduction of notes payable.

Our effective tax rate was 26% of pre-tax income in the first quarter of fiscal 2015, the same as in the first quarter of fiscal 2014.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first quarter of fiscal 2015 were \$23,648,000, a decrease of \$267,000, or 1%, from net sales of \$23,915,000 for the first quarter of fiscal 2014. The net sales decline resulted from 7% fewer tons sold, which was partially offset by higher average net selling prices. Net sales of fluid purification products were approximately 6% lower due primarily to reduced sales to edible oil producers. Our co-packaged traditional coarse cat litter net sales were also down 10% compared to the first quarter of the prior year. Partially offsetting these declines were higher sales of products used by agricultural chemical carrier producers. Sales of our animal health and nutrition products also increased in foreign markets.

The Business to Business Products Group's operating income for the first quarter of fiscal 2015 was \$6,871,000, a decrease of \$780,000, or 10%, from operating income of \$7,651,000 in the first quarter of fiscal 2014. Operating income was negatively impacted by the reduced sales described above, by 13% higher packaging costs and by 8% higher freight costs. Packaging costs increased due to the mix of products sold. The freight cost increase is attributed to the temporary utilization of additional railcars. See further discussion of manufacturing costs in "Consolidated Results" above.

Selling, general and administrative expenses for the Business to Business Products Group increased 3% compared to the first quarter of fiscal 2014 due primarily to additional personnel, including staff at our new subsidiary in China, Amlan Trading (Shenzhen) Company, Ltd.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first quarter of fiscal 2015 were \$42,396,000, an increase of \$2,765,000, or 7.0%, from net sales of \$39,631,000 for the first quarter of fiscal 2014. Net sales for our cat litter and industrial absorbent products increased; however, sales declined for our Canadian and United Kingdom foreign subsidiaries. Our foreign subsidiaries are discussed under "Foreign Operations" below. Overall cat litter net sales increased approximately 8% due to 18% higher sales volume. Private label cat litter sales increased approximately 50% due primarily to additional sales from the acquisition of MFM in the second quarter of fiscal 2014. Our branded cat litter net sales decrease of approximately 13% was attributed primarily to increased trade spending for our Cat's Pride Fresh & Light products (trade spending is reported as a reduction of sales) and lower sales of our other Cat's Pride products. Net sales of clay and nonclay-based industrial absorbent products increased approximately 9% compared to the first quarter of fiscal 2014.

The Retail and Wholesale Products Group reported operating income of \$886,000 for the first quarter of fiscal 2015, a decrease of \$389,000, or 31%, from operating income of \$1,275,000 for the first quarter of fiscal 2014. The increased proportion of total cat litter sales derived from private label cat litter, which generally has a lower gross profit than branded cat litter, diminished operating income. This unfavorable sales mix more than offset the benefit of the increased sales discussed above and the lower selling general and administrative expenses discussed below. Higher packaging costs due to rising prices for plastics commodities used for many of our cat litter products were primarily offset by lower freight and material costs.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 27% lower compared to the first quarter of fiscal 2014 due to reduced advertising expense, which was partially offset by additional amortization of intangible assets related to the MFM acquisition in the second quarter of fiscal 2014.

FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the first quarter of fiscal 2015 were \$3,121,000, a 5% increase compared to net sales of \$2,978,000 during the first quarter of fiscal 2014. The net sales increase was attributed to sales by our new China subsidiary, which more than offset lower sales in our Canada and United Kingdom subsidiaries. Net sales by our foreign subsidiaries represented approximately 5% of our consolidated net sales during the first quarter of both fiscal years 2015 and 2014.

Our foreign subsidiaries reported a net loss of \$242,000 for the first quarter of fiscal 2015 compared to a net loss of \$117,000 for the first quarter of fiscal 2014. The net loss increased due primarily to foreign currency exchange losses, an unfavorable product sales mix at our United Kingdom subsidiary and a reported loss at our new China subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, purchasing and upgrading equipment, facilities and real estate, funding new product development and investing in infrastructure, repurchasing Common Stock, paying dividends and business acquisitions. During the first three months of fiscal 2015, we principally used cash generated from operations and from previous debt issuances to fund these requirements. We also have the ability to borrow under our credit facilities; however, we have not borrowed under the credit agreement in recent years. Cash and cash equivalents decreased \$7,824,000 during the first three months of fiscal 2015 to \$8,406,000 as of October 31, 2014.

The following table sets forth certain elements of our condensed Consolidated Statements of Cash Flows (in thousands):

| | For the Three Months Ended | |
|--|----------------------------|-----------|
| | October 31, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$1,748 | \$(652) |
| Net cash used in investing activities | (4,825) | (895) |
| Net cash used in financing activities | (4,786) | (4,672) |
| Effect of exchange rate changes on cash and cash equivalents | 39 | (40) |
| Net decrease in cash and cash equivalents | \$(7,824) | \$(6,259) |

Net cash provided by operating activities

In addition to net income, as adjusted for depreciation and amortization and other non-cash operating activities, the primary sources and uses of operating cash flows for the first three months of fiscal years 2015 and 2014, were as follows:

Accounts receivable, less allowance for doubtful accounts, increased \$896,000 in the first three months of fiscal 2015 compared to an increase of \$604,000 in the first three months of fiscal 2014. Sales in the first quarter of fiscal 2015 were higher than in the first quarter of fiscal 2014. The change in both periods is also subject to the timing of sales and collections and the payment terms provided to various customers.

Inventories decreased \$151,000 in the first three months of fiscal 2015 compared to an increase of \$1,621,000 in the same period in fiscal 2014. Finished goods inventory was down in the first three months of fiscal 2015 due primarily to fewer tons in inventory; however, this decrease was mostly offset by an increase in additives inventories. In the first three months of fiscal 2014, finished goods, packaging and additives inventories were up primarily due to higher costs and production projections for certain products.

Prepaid expenses decreased \$1,308,000 in the first three months of fiscal 2015 compared to an increase of \$496,000 in the first three months of fiscal 2014. The decrease in the first three months of fiscal 2015 was due primarily to a reclassification of prepaid rents and royalties to other long-term assets and a decrease in prepaid income taxes. These decreases were partially offset by an increase in prepaid insurance. The prepaid expenses increase in the first three months of fiscal 2014 was due primarily to an increase in prepaid insurance. Prepaid insurance increased in both periods due to the timing of insurance premium payments.

Other assets increased \$1,173,000 in the first three months of fiscal 2015 compared to an increase of \$4,000 in the first three months of fiscal 2014. The increase in the first three months of fiscal 2015 was due primarily to the reclassification of prepaid rents and royalties from current prepaid expenses. The cash surrender value of life insurance on key employees also increased in both periods.

Accounts payable decreased \$1,632,000 in the first three months of fiscal 2015 compared to an increase of \$367,000 in the first three months of fiscal 2014. Trade payables varied in both periods due to timing of payments, fluctuations in the cost of goods and services we purchased and production volume levels. Payables related to freight decreased significantly in the first three months of fiscal 2015 due in part to various vendor payment terms. In the first three months of fiscal 2014, an increase in trade accounts payable was partially offset by a decrease in accrued income taxes.

Accrued expenses decreased \$2,000,000 in the first three months of fiscal 2015 compared to a decrease of \$4,313,000 in the first three months of fiscal 2014. The purchase of plant equipment previously under a capital lease decreased accrued expense in the first three months of fiscal 2015. Accrued salaries included the discretionary incentive bonus accrual, which in the first three months of both fiscal 2015 and 2014 decreased by the payout of the prior fiscal year's bonus and increased by a lesser amount for the fiscal year's first three months' accrual. Accrued trade promotions and advertising in the first three months of both fiscal 2015

and 2014 varied due to the timing of marketing programs. Similar to accounts payable, accrued plant expenses fluctuated due to timing of payments, cost fluctuations for goods and services we purchased and our production levels.

Deferred compensation increased \$261,000 in the first three months of fiscal 2015 compared to an increase of \$251,000 in the first three months of fiscal 2014. Deferred compensation balances in both periods were reduced by scheduled payouts and were increased by employee deferrals and interest earned on accumulated balances.

Pension and other postretirement liabilities increased \$357,000 in the first three months of fiscal 2015 compared to an increase of \$277,000 in the first three months of fiscal 2014. The liability increase for both periods was determined based on actuarial estimates using various assumptions. See Note 6 of the notes to condensed Consolidated Financial Statements for further discussion of our postretirement benefit obligations.

Other liabilities increased \$35,000 in the first three months of fiscal 2015 compared to an increase of \$102,000 in the first three months of fiscal 2014. A reclassification of the uncertain tax positions accrual to long-term contributed to the increase for the first three months of fiscal 2014.

Net cash used in investing activities

Cash used in investing activities was \$4,825,000 in the first three months of fiscal 2015 compared to net cash used in investing activities of \$895,000 in the first three months of fiscal 2014. Cash used for capital expenditures of \$5,717,000 and \$3,382,000 in the first three months of fiscal 2015 and 2014, respectively, was primarily for business growth projects and equipment replacement at our manufacturing facilities. Disposition of investment securities exceeded purchases by \$740,000 and \$3,273,000 in the first three months of fiscal 2015 and 2014, respectively. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. In addition, during the first three months of fiscal 2014 \$800,000 was deposited in escrow related to the acquisition of MFM that was pending as of October 31, 2013.

Net cash used in financing activities

Cash used in financing activities was \$4,786,000 in the first three months of fiscal 2015 compared to cash used in financing activities of \$4,672,000 in the first three months of fiscal 2014. Scheduled payments on long-term debt in the first three months of fiscal 2015 and 2014 were both \$3,500,000. Dividend payments in the first three months of fiscal 2015 were \$1,311,000 compared to \$1,236,000 paid during the same period of fiscal 2014 due to a dividend increase.

Other

Total cash and investment balances held by our foreign subsidiaries of \$1,376,000 as of October 31, 2014 were slightly higher than the October 31, 2013 balances of \$1,327,000. See further discussion in "Foreign Operations" above.

On December 4, 2014, we signed a fourth amendment to our credit agreement with BMO Harris Bank N.A. ("BMO Harris") which was scheduled to expire on December 31, 2014. The new agreement will expire on December 4, 2019 and provides for a \$25,000,000 unsecured revolving credit agreement, including a maximum of \$5,000,000 for foreign letters of credit. The remaining terms are substantially unchanged from our previous agreement with BMO Harris, including the provision that we may select a variable rate based on either the BMO Harris' prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. At October 31, 2014, the variable rates would have been 3.25% for BMO Harris' prime-based rate or 1.55% for LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The

agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. We did not borrow under the credit agreement during the three months ended October 31, 2014 and 2013, and we were in compliance with its covenants.

As of October 31, 2014, we had remaining authority to repurchase 309,613 shares of Common Stock under a repurchase plan approved by our Board of Directors. These repurchases may be made on the open market (pursuant to Rule 10b5-1 plans or otherwise) or in negotiated transactions. The timing and amount of shares repurchased will be determined by our management.

We believe that cash flow from operations, availability under our current revolving credit facility, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, dividend payments and debt service obligations for at least the next 12 months. We believe cash requirements for capital expenditures in fiscal 2015 will be comparable to fiscal 2014 due to projects at our manufacturing facilities. Our cash requirements are subject to change as business conditions warrant and opportunities arise. We continually evaluate our liquidity position and anticipated cash needs, as well as the financing options available to obtain additional

cash reserves. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all financial covenants under debt agreements, including, but not limited to, the current credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

The tables in the following subsection summarize our contractual obligations and commercial commitments (in thousands) as of October 31, 2014 for the time-frames indicated.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations | Payments Due by Period | | | | |
|------------------------------------|------------------------|------------------|-------------|-------------|---------------|
| | Total | Less Than 1 Year | 1 – 3 Years | 4 – 5 Years | After 5 Years |
| Notes Payable | \$18,900 | \$3,483 | \$6,167 | \$6,167 | \$3,083 |
| Interest on Notes Payable | 2,598 | 756 | 1,109 | 611 | 122 |
| Operating Leases | 6,533 | 2,108 | 2,583 | 1,197 | 645 |
| Total Contractual Cash Obligations | \$28,031 | \$6,347 | \$9,859 | \$7,975 | \$3,850 |

We made total contributions to our defined benefit pension plan of \$230,000 during the first three months of fiscal 2015. We estimate contributions of approximately \$1,626,000 will be made during the remainder of fiscal 2015. We have not presented this obligation for future years in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets and actuarial assumptions. See “Item 3. Quantitative and Qualitative Disclosures About Market Risk” below for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

| Other Commercial Commitments | Amount of Commitment Expiration Per Period | | | | |
|------------------------------|--|------------------|-------------|-------------|---------------|
| | Total | Less Than 1 Year | 1 – 3 Years | 4 – 5 Years | After 5 Years |
| | \$29,345 | \$29,345 | \$— | \$— | \$— |

The other commercial commitments in the table above represent open purchase orders, including blanket purchase orders, for items such as packaging, additives and pallets used in the normal course of operations. The expected timing of payments for these obligations is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of financial condition and results of operations is based on our unaudited condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these financial statements requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements. Estimates and assumptions are revised periodically. Actual results could differ from these estimates. See the information concerning our critical accounting policies included under “Management’s Discussion of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

Recently Adopted Accounting Standards

The tangible property regulations ("repair regulations") released by the Internal Revenue Service in September 2013 under Sections 162(a) and 263(a) of the Internal Revenue Code were effective for our tax year beginning August 1, 2014. The repair regulations provide guidance regarding the timing of deductions and the capitalization of amounts paid to acquire, produce or improve tangible property. We are currently evaluating our accounting policies to ensure compliance with the requirements of the repair regulations.

Recently Issued Regulations

In May 2014, the FASB issued guidance under ASC 250, Revenue from Contract with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Transition options include either a full or modified retrospective approach and early adoption is not permitted. This guidance will be effective at the beginning of our first quarter of fiscal 2017. We are currently evaluating the impact of the adoption of these requirement on our Consolidated Financial Statements.

In August 2014, the FASB issued guidance under ASC 205, Presentation of Financial Statements - Going Concern, which defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance will be effective for our fiscal year ended July 31, 2017. We are currently evaluating the impact of the adoption of these requirement on our Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk and employ policies and procedures to manage our exposure to changes in the market risk of our cash equivalents and short-term investments. We believe that the market risk arising from holdings of our financial instruments is not material.

We are exposed to foreign currency fluctuation risk, primarily U.S. Dollar/British Pound, U.S. Dollar/Euro and U.S. Dollar/Canadian Dollar, as it relates to certain accounts receivables and to our foreign operations. We are also subject to translation exposure of our foreign subsidiaries' financial statements. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated sales or net income. In addition, a small portion of our consolidated accounts receivable are denominated in foreign currencies. In the first three months of fiscal 2015 we did not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates. We believe that the overall foreign currency fluctuation risk is not material to our Consolidated Financial Statements.

We are exposed to market risk as it relates to the investments of plan assets under our defined benefit pension plan. The fair value of these assets is subject to change due to fluctuations in the financial markets. A lower asset value may increase our pension expense and may increase the amount of future funding contributions.

We are exposed to regulatory risk in the fluid purification, animal health and agricultural markets, principally as a result of the risk of increasing regulation of the food chain throughout the world, but particularly in the United States and Europe. We actively monitor developments in this area, both directly and through trade organizations of which we are a member.

We are exposed to commodity price risk with respect to fuel. Factors that could influence the cost of natural gas used in the kilns to dry our clay include the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, general supply and demand for natural gas, seasonality and the weather patterns throughout the United States and the world. We monitor fuel market trends and, consistent with our past practice, we may contract for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. We have not purchased any natural gas contracts for our planned kiln fuel needs for fiscal 2015. We continue to purchase natural gas at spot rates on a month to month basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended October 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Items 1, 1A, 2, 3 and 5 of this Part II are either inapplicable or are answered in the negative and are omitted pursuant to the instructions to Part II.

ITEM 4. MINE SAFETY DISCLOSURES

Our mining operations are subject to regulation by the Mine Safety and Health Administration under authority of the Federal Mine Safety and Health Act of 1977, as amended. Information concerning mine safety violations or other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

| Exhibit No. | Description | SEC Document Reference |
|-------------|--|------------------------|
| 10.1 | Fourth Amendment, dated as of December 4, 2014 to Credit Agreement dated as of January 27, 2006. | Filed herewith. |
| 11 | Statement re: Computation of Earnings per Share. | Filed herewith. |
| 31 | Certifications pursuant to Rule 13a–14(a). | Filed herewith. |
| 32 | Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 95 | Mine Safety Disclosures | Filed herewith. |
| 101.INS | XBRL Taxonomy Instance Document | Filed herewith. |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Filed herewith. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Filed herewith. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Filed herewith. |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | Filed herewith. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed herewith. |

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.

OIL-DRI CORPORATION OF AMERICA
(Registrant)

BY /s/ Daniel S. Jaffee
Daniel S. Jaffee
President and Chief Executive Officer

BY /s/ Daniel T. Smith
Daniel T. Smith
Vice President and Chief Financial Officer

Dated: December 5, 2014

EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| 10.1 | Fourth Amendment, dated as of December 4, 2014 to Credit Agreement dated as of January 27, 2006. |
| 11 | Statement re: Computation of Earnings per Share. |
| 31 | Certifications pursuant to Rule 13a-14(a). |
| 32 | Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002. |
| 95 | Mine Safety Disclosures |
| 101.INS | XBRL Taxonomy Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

Note: Stockholders may receive copies of the above listed exhibits, without fee, by written request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213, by telephone at (312) 321-1515 or by e-mail to info@oildri.com.