

OIL DRI CORP OF AMERICA  
Form 10-Q  
March 09, 2016

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 January 31, 2016
- 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 January 31, 2016.

Common Stock – 5,058,090 Shares and Class B Stock – 2,190,994 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, 2015. 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, Fresh & Light Ultimate Care 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 &amp; SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	(unaudited)	
	January 31, 2016	July 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 13,827	\$ 20,138
Short-term investments	15,092	2,190
Accounts receivable, less allowance of \$883 and \$761 at January 31, 2016 and July 31, 2015, respectively	30,708	31,466
Inventories	22,949	21,369
Deferred income taxes	2,468	2,468
Prepaid repairs expense	3,791	3,813
Prepaid expenses and other assets	3,885	1,199
Total Current Assets	92,720	82,643
Property, Plant and Equipment		
Cost	213,046	209,584
Less accumulated depreciation and amortization	(133,597)	(129,929)
Total Property, Plant and Equipment, Net	79,449	79,655
Other Assets		
Goodwill	9,034	9,034
Trademarks and patents, net of accumulated amortization of \$313 and \$301 at January 31, 2016 and July 31, 2015, respectively	879	818
Debt issuance costs, net of accumulated amortization of \$147 and \$133 at January 31, 2016 and July 31, 2015, respectively	132	146
Customer list, net of accumulated amortization of \$2,777 and \$2,094 at January 31, 2016 and July 31, 2015, respectively	5,008	5,691
Deferred income taxes	5,792	6,031
Other	6,041	6,013
Total Other Assets	26,886	27,733
Total Assets	\$ 199,055	\$ 190,031

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



## OIL-DRI CORPORATION OF AMERICA &amp; SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	(unaudited)	
	January 31,	July 31,
	2016	2015
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable	\$3,083	\$3,483
Accounts payable	7,704	7,428
Dividends payable	1,407	1,376
Accrued expenses:		
Salaries, wages and commissions	8,662	6,245
Trade promotions and advertising	2,441	2,721
Freight	2,326	1,874
Other	6,531	5,761
<b>Total Current Liabilities</b>	<b>32,154</b>	<b>28,888</b>
<b>Noncurrent Liabilities</b>		
Notes payable	12,333	15,417
Deferred compensation	9,622	9,518
Pension and postretirement benefits	23,675	23,429
Other	3,200	2,251
<b>Total Noncurrent Liabilities</b>	<b>48,830</b>	<b>50,615</b>
<b>Total Liabilities</b>	<b>80,984</b>	<b>79,503</b>
<b>Stockholders' Equity</b>		
Common Stock, par value \$.10 per share, issued 7,980,743 shares at January 31, 2016 and 7,936,343 shares at July 31, 2015	798	794
Class B Stock, par value \$.10 per share, issued 2,515,735 shares at January 31, 2016 and 2,389,735 shares at July 31, 2015	252	239
Additional paid-in capital	33,460	32,632
Retained earnings	148,493	142,095
Accumulated other comprehensive loss:		
Pension and postretirement benefits	(8,667	) (8,975
Cumulative translation adjustment	(420	) (270
<b>Total accumulated other comprehensive loss</b>	<b>(9,087</b>	<b>) (9,245</b>
Less Treasury Stock, at cost (2,922,653 Common and 324,741 Class B shares at January 31, 2016 and 2,932,796 Common and 324,741 Class B shares at July 31, 2015)	(55,845	) (55,987
<b>Total Stockholders' Equity</b>	<b>118,071</b>	<b>110,528</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$199,055</b>	<b>\$190,031</b>

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 Six Months Ended	
	January 31,	
	2016	2015
Net Sales	\$133,162	\$130,687
Cost of Sales	(93,447 )	(101,685 )
Gross Profit	39,715	29,002
Selling, General and Administrative Expenses	(26,539 )	(21,561 )
Income from Operations	13,176	7,441
Other Income (Expense)		
Interest expense	(511 )	(689 )
Interest income	9	5
Other, net	(65 )	(6 )
Total Other Expense, Net	(567 )	(690 )
Income Before Income Taxes	12,609	6,751
Income Taxes	(3,365 )	(1,834 )
Net Income	9,244	4,917
Retained Earnings:		
Balance at beginning of period	142,095	136,039
Cash dividends declared and treasury stock issuances	(2,846 )	(2,626 )
Balance at End of Period	\$148,493	\$138,330
Net Income Per Share		
Basic Common	\$1.39	\$0.75
Basic Class B	\$1.04	\$0.56
Diluted	\$1.28	\$0.69
Average Shares Outstanding		
Basic Common	4,978	4,951
Basic Class B	2,046	2,016
Diluted	7,074	7,023
Dividends Declared Per Share		
Basic Common	\$0.4200	\$0.4000
Basic Class B	\$0.3150	\$0.3000

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 Six Months Ended	
	January 31,	
	2016	2015
Net Income	\$9,244	\$4,917
Other Comprehensive Income (Loss):		
Unrealized loss on marketable securities	—	(114 )
Pension and postretirement benefits (net of tax)	308	192
Cumulative translation adjustment	(150 )	(437 )
Other Comprehensive Income (Loss)	158	(359 )
Total Comprehensive Income	\$9,402	\$4,558

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	
	January 31,	
	2016	2015
Net Sales	\$65,367	\$64,643
Cost of Sales	(46,305 )	(49,410 )
Gross Profit	19,062	15,233
Selling, General and Administrative Expenses	(13,662 )	(10,952 )
Income from Operations	5,400	4,281
Other Income (Expense)		
Interest expense	(252 )	(307 )
Interest income	6	2
Other, net	(85 )	(90 )
Total Other Expense, Net	(331 )	(395 )
Income Before Income Taxes	5,069	3,886
Income taxes	(1,248 )	(1,089 )
Net Income	3,821	2,797
Net Income Per Share		
Basic Common	\$0.57	\$0.43
Basic Class B	\$0.43	\$0.32
Diluted	\$0.53	\$0.39
Average Shares Outstanding		
Basic Common	4,982	4,953
Basic Class B	2,055	2,022
Diluted	7,096	7,030
Dividends Declared Per Share		
Basic Common	\$0.2100	\$0.2000
Basic Class B	\$0.1575	\$0.1500

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	
	January 31,	
	2016	2015
Net Income	\$3,821	\$2,797
Other Comprehensive Income (Loss):		
Pension and postretirement benefits (net of tax)	130	93
Cumulative translation adjustment	(139)	(352)
Other Comprehensive Loss	(9)	(259)
Total Comprehensive Income	\$3,812	\$2,538

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

## OIL-DRI CORPORATION OF AMERICA &amp; SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(in thousands)

	(unaudited)	
	For the Six Months Ended	
	January 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$9,244	\$4,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,914	5,936
Amortization of investment net discount	(2	) (1
Non-cash stock compensation expense	638	656
Excess tax benefits for share-based payments	(55	) (16
Deferred income taxes	189	166
Provision for bad debts and cash discounts	131	173
Loss on the sale of fixed assets	202	118
Gain on sale of marketable securities	—	(105
(Increase) Decrease in assets:		
Accounts receivable	521	(1,431
Inventories	(1,674	) 822
Prepaid expenses	(2,671	) 1,628
Other assets	(118	) (1,205
Increase (Decrease) in liabilities:		
Accounts payable	(201	) (1,232
Accrued expenses	3,295	(867
Deferred compensation	104	357
Pension and postretirement benefits	554	519
Other liabilities	980	172
Total Adjustments	7,807	5,690
Net Cash Provided by Operating Activities	17,051	10,607
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(4,795	) (9,920
Proceeds from sale of property, plant and equipment	249	15
Restricted cash	—	129
Purchases of short-term investments	(14,125	) (700
Dispositions of short-term investments	1,225	2,401
Proceeds from sale of marketable securities	—	108
Net Cash Used in Investing Activities	(17,446	) (7,967
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(3,484	) (3,500
Dividends paid	(2,783	) (2,623
Purchase of treasury stock	(18	) —
Proceeds from issuance of treasury stock	185	—
Proceeds from issuance of common stock	96	15
Excess tax benefits for share-based payments	55	16
Net Cash Used in Financing Activities	(5,949	) (6,092
Effect of exchange rate changes on cash and cash equivalents	33	(15

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Net Decrease in Cash and Cash Equivalents	(6,311	)	(3,467	)
Cash and Cash Equivalents, Beginning of Period	20,138		16,230	
Cash and Cash Equivalents, End of Period	\$13,827		\$12,763	

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OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows - Continued  
(in thousands)

	(unaudited) For the Six Months Ended January 31,	
	2016	2015
Supplemental disclosure of non-cash investing and financing activities:		
Capital expenditures accrued, but not paid	\$924	\$1,020
Cash dividends declared and accrued, but not paid	\$1,407	\$1,313

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

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, 2015 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 and reclassifications which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three and six months ended January 31, 2016 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2016.

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 Issued Regulations

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance under Accounting Standards Codification “ASC” 606, 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 permitted. The implementation date for this guidance was recently deferred and will now be effective at the beginning of our first quarter of fiscal year 2019. We are currently evaluating the impact of the adoption of this 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 ending July 31, 2017. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In April 2015, the FASB issued guidance under ASC 835, Simplifying the Presentation of Debt Issuance Cost, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, rather than as an asset. This guidance is effective for our first quarter of fiscal year 2017 and early adoption is permitted. The guidance must be applied on a retrospective basis. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In July 2015, the FASB issued guidance under ASC 330, Simplifying the Measurement of Inventory. The new guidance requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This new guidance is effective for our first quarter of fiscal year 2018 and early adoption is permitted. The guidance must be applied prospectively. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In November 2015, the FASB issued guidance under ASC 740, Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This guidance is effective for our first quarter of fiscal year 2018 and early adoption is permitted. The guidance may be applied either prospectively or retrospectively to all periods presented. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In January 2016, the FASB issued guidance under ASC 825, Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The provisions relevant to us at this time require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, as well as eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value in such disclosure. This guidance is effective for our first quarter of fiscal year 2019 and early adoption is generally not permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In February 2016, the FASB issued guidance under ASC 842, Leases, which provides that for leases with a term greater than 12 months, a lessee must recognize in the statement of financial position both a liability to make lease payments and an asset representing its right to use the underlying asset. Other requirements describe expense

recognition, as well as financial statement presentation and disclosure. This guidance is effective for our first quarter of fiscal year 2020 using a modified retrospective approach, which includes a number of optional practical expedients. Early adoption is permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

### 3. INVENTORIES

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

	January 31, 2016	July 31, 2015
Finished goods	\$13,139	\$12,117
Packaging	4,844	4,735
Other	4,966	4,517
Total Inventories	\$22,949	\$21,369

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 January 31, 2016 and July 31, 2015 were \$380,000 and \$521,000, 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 fair value hierarchy are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs for similar assets or liabilities or valuation models whose inputs are observable, directly or indirectly.

Level 3: Unobservable inputs.

Cash equivalents of \$4,193,000 and \$9,297,000 as of January 31, 2016 and July 31, 2015, respectively, were classified as Level 1. These cash instruments are primarily money market mutual funds and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

Short-term investments 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, which approximated fair value as of January 31, 2016 and July 31, 2015.

Accounts receivable and accounts payable balances approximated their fair values at January 31, 2016 and July 31, 2015 due to the short maturity and nature of those balances.

Notes payable are reported at the face amount of future maturities. The estimated fair value of notes payable, including current maturities, was \$16,619,000 and \$20,476,000 as of January 31, 2016 and July 31, 2015, 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 at least an annual 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 \$364,000 and \$400,000 in the second quarter of fiscal 2016 and 2015, respectively. Intangible amortization expense was \$727,000 and \$820,000 for the first six months of fiscal 2016 and 2015, respectively. Estimated intangible amortization for the remainder of fiscal 2016 is \$726,000. Estimated intangible amortization for the next five fiscal years is as follows (in thousands):

2017	\$1,226
2018	\$1,016
2019	\$829
2020	\$659
2021	\$476

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

We performed our annual goodwill impairment analysis in the first quarter of fiscal 2016 and no impairment was identified.

## 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 January 31,		For the Six Months Ended January 31,	
	2016	2015	2016	2015
Service cost	\$267	\$371	\$756	\$803
Interest cost	484	457	967	925
Expected return on plan assets	(485)	(469)	(962)	(939)
Amortization of:				
Prior service costs	2	3	4	5
Other actuarial loss	209	139	496	289
Net periodic benefit cost	\$477	\$501	\$1,261	\$1,083
	Postretirement Health Benefits (in thousands)			
	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2016	2015	2016	2015
Service cost	\$21	\$34	\$43	\$67
Interest cost	21	26	41	53
Amortization of:				
Prior service costs	(1)	(1)	(3)	(3)
Other actuarial loss	—	9	—	18
Net periodic benefit cost	\$41	\$68	\$81	\$135

The net periodic pension benefit cost for the second quarter of fiscal 2016 was lower than for the first quarter due to updated actuarial estimates.

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 \$315,000 and \$599,000 to our pension plan during the second quarter and first six months of fiscal 2016, respectively. We estimate contributions will be \$679,000 for the remainder of fiscal 2016. 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 and Six Months Ended January 31,					
	2016	2015	2016	2015	2016	2015
Discount rate for net periodic benefit cost	4.22	% 4.28	% 3.51	% 3.87		%
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 4.0% in fiscal 2035.

## 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, 2015.

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	
	January 31, 2016	July 31, 2015
	(in thousands)	
Business to Business Products	\$56,394	\$55,767
Retail and Wholesale Products	96,543	96,043
Unallocated Assets	46,118	38,221
Total Assets	\$199,055	\$190,031

	For the Six Months Ended January 31,			
	Net Sales		Income	
	2016	2015	2016	2015
	(in thousands)			
Business to Business Products	\$48,446	\$46,695	\$16,745	\$14,314
Retail and Wholesale Products	84,716	83,992	9,697	2,148
Total Sales	\$133,162	\$130,687		
Corporate Expenses			(13,266 )	(9,021 )
Income from Operations			13,176	7,441
Total Other Expense, Net			(567 )	(690 )
Income before Income Taxes			12,609	6,751
Income Taxes			(3,365 )	(1,834 )
Net Income			\$9,244	\$4,917

	For the Three Months Ended January 31,			
	Net Sales		Income	
	2016	2015	2016	2015
	(in thousands)			
Business to Business Products	\$22,625	\$23,047	\$7,576	\$7,443
Retail and Wholesale Products	42,742	41,596	4,295	1,262
Total Sales	\$65,367	\$64,643		
Corporate Expenses			(6,471 )	(4,424 )
Income from Operations			5,400	4,281
Total Other Expense, Net			(331 )	(395 )
Income before Income Taxes			5,069	3,886
Income Taxes			(1,248 )	(1,089 )
Net Income			\$3,821	\$2,797

## 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 is shown below:

	Number of Shares  (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value  (in thousands)
Options outstanding and exercisable, July 31, 2015	41	\$ 15.43	0.9	\$447
Exercised	(19 )	\$ 15.01		\$242
Options outstanding and exercisable, January 31, 2016	22	\$ 15.79	0.6	\$488

The amount of cash received from the exercise of stock options during the second quarter of fiscal year 2016 was \$96,000 and the related tax benefit was \$40,000. There were no stock options exercised in the second quarter of fiscal year 2015. The amount of cash received from the exercise of stock options during the first six months of fiscal 2016 was \$281,000 and the related tax benefit was \$68,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2015 was \$15,000 and the related tax benefit was \$3,000.

No stock options were granted in the first six months of either fiscal 2016 or 2015.

## Restricted Stock

All of our non-vested restricted stock as of January 31, 2016 was issued under the 2006 Plan with vesting periods between two years and five years.

Under the 2006 Plan, 400 restricted shares of Common Stock were granted in the second quarter of fiscal year 2016. There were 2,000 restricted shares of Common Stock granted in the second quarter of fiscal 2015.

Stock-based compensation expense related to non-vested restricted stock in the second quarter of fiscal years 2016 and 2015 was \$306,000 and \$348,000, respectively. In the first six months of fiscal years 2016 and 2015, the stock-based compensation related to non-vested restricted stock was \$638,000 and \$656,000, respectively.

A summary of restricted stock transactions is shown below:

	Restricted Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested restricted stock outstanding at July 31, 2015	74	\$28.83
Granted	164	\$28.57
Vested	(28 )	\$23.23
Forfeitures	(2 )	\$32.23
Non-vested restricted stock outstanding at January 31, 2016	208	\$29.36

## 9. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the changes in accumulated other comprehensive (loss) income by component as of January 31, 2016 (in thousands):

	Pension and Postretirement Health Benefits		Cumulative Translation Adjustment		Total Accumulated Other Comprehensive (Loss) Income	
Balance as of July 31, 2015	\$ (8,975	)	\$ (270	)	\$ (9,245	)
Other comprehensive loss before reclassifications, net of tax	—		(150	)	(150	)
Amounts reclassified from accumulated other comprehensive income, net of tax	308	a)	—		308	
Net current-period other comprehensive income (loss), net of tax	308		(150	)	158	
Balance as of January 31, 2016	\$ (8,667	)	\$ (420	)	\$ (9,087	)

a) Amount is net of tax expense of \$189,000. Amount is 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, 2015. 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, 2015.

### 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, bleaching clay and fluid purification aids, cat litter, 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

#### SIX MONTHS ENDED JANUARY 31, 2016 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2015

#### CONSOLIDATED RESULTS

Consolidated net sales for the six months ended January 31, 2016 were \$133,162,000, an increase of 2% from net sales of \$130,687,000 for the six months ended January 31, 2015. Consolidated net income for the first six months of fiscal 2016 was \$9,244,000, an 88% increase from net income of \$4,917,000 for the first six months of fiscal 2015. Net sales and operating income were up for both our Retail and Wholesale Products and Business to Business Products Groups. Diluted net income per share was \$1.28 for the first six months of fiscal 2016, compared to \$0.69 for the first six months of fiscal 2015.

Consolidated gross profit as a percentage of net sales for the first six months of fiscal 2016 was 30%, which was higher than the 22% reported for the first six months of fiscal 2015. Gross profit was positively impacted by a 24% decline in the cost per manufactured ton for natural gas used to operate kilns that dry our clay and by lower freight and packaging costs per ton produced. Other manufacturing costs were essentially flat with the same period the prior year. Freight costs declined due primarily to lower diesel fuel costs, as well as additional capacity and some relief from unfavorable regulations in the truck freight industry. A significant amount of our packaging purchases are subject to contractual price adjustments throughout the year based on underlying commodity prices. The lower packaging costs reflected favorable price adjustments as commodity prices have declined, particularly for resin and paper-based packaging.

Total selling, general and administrative expenses were higher for the first six months of fiscal 2016 compared to the first six months of fiscal 2015. The discussions of the segments' operating incomes below describe the changes in the selling, general and administrative expenses that were allocated to the operating segments, particularly higher expenses in the Business to Business Products Group. The remaining unallocated corporate expenses in the first six months of fiscal 2016 included a higher estimated annual incentive bonus accrual as compared to the prior year. The incentive bonus accruals were based on performance targets established for each fiscal year.

Interest expense was \$178,000 lower for the first six months of fiscal 2016 compared to the same period in fiscal 2015 due to a reduction of notes payable.

Our effective tax rate was 27% of pre-tax income for the first six months of fiscal 2016, which was the same as for the first six months of fiscal 2015. Our effective tax rate was based on the estimated level of our taxable income for the year and the assessment of various deductions, including depletion.

Operating results for the six months ended January 31, 2016 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2016. We believe that our integrated marketing campaign for our new and improved Fresh & Light Ultimate Care lightweight cat litter will increase advertising expenses for the remainder of the fiscal year and will reduce earnings in the third and fourth quarters of fiscal 2016. We anticipate the amount of these expenses will significantly exceed the \$10,800,000 spent when we initially created the lightweight cat litter category.

#### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal 2016 were \$48,446,000, an increase of \$1,751,000, or 4%, from net sales of \$46,695,000 for the first six months of fiscal 2015. Net sales of our agricultural chemical carrier products increased approximately 27% due to more tons sold and a favorable product sales mix. Sales increased for both our standard and engineered granule products used by agricultural and horticultural chemical manufacturers. Net sales of animal health and nutrition products were down approximately 6% as improved sales in certain countries (including for our subsidiary in China as described in Foreign Operations below) were more than offset by sales declines in other foreign markets. Net sales of our co-packaged coarse cat litter and fluids purification products were essentially flat compared to the prior year.

Selling, general and administrative expenses for the Business to Business Products Group were 13% higher compared to the first six months of fiscal 2015 due primarily to additional costs to promote new animal health and nutrition products.

The Business to Business Products Group's operating income for the first six months of fiscal 2016 was \$16,745,000, an increase of \$2,431,000, or 17%, from operating income of \$14,314,000 for the first six months of fiscal 2015. The benefits of higher sales and lower costs for natural gas, freight and packaging more than offset the higher selling, general and administrative expenses. See "Consolidated Results" above for further discussion of natural gas, freight and packaging costs.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first six months of fiscal 2016 were \$84,716,000, an increase of \$724,000, or 1%, from net sales of \$83,992,000 for the first six months of fiscal 2015. Net sales increased for cat litter products, which more than offset lower sales for both our industrial absorbent products and our Canadian subsidiary. Our foreign subsidiaries are discussed in "Foreign Operations" below. Overall cat litter net sales were up approximately 2% compared to the first six months of fiscal 2015 driven by a favorable product sales mix, lower trade spending and higher selling prices, which outweighed a decline in tons sold. Private label cat litter sales increased due primarily to our lightweight scoopable product and new business for other private label scoopable products. Sales of Cat's Pride Fresh & Light lightweight cat litter also increased, while sales of other Cat's Pride scoopable and coarse cat litters declined. Sales of industrial and automotive absorbent products were down approximately 2% compared to the first six months of fiscal 2015 due primarily to lower sales of non-clay industrial absorbent products.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were slightly higher compared to the first six months of fiscal 2015 due primarily to increased advertising expenses, which were partially offset by lower personnel costs.

The Retail and Wholesale Products Group's operating income for the first six months of fiscal 2016 was \$9,697,000, an increase of \$7,549,000 from operating income of \$2,148,000 for the first six months of fiscal 2015. Operating income increased due primarily to improved product sales mix and lower costs for natural gas, freight and packaging. See "Consolidated Results" above for further discussion of these cost changes.

## FOREIGN OPERATIONS

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and our subsidiary in China, which is included in the Business to Business Products Group. Net sales by our foreign subsidiaries during the first six months of fiscal 2016 were \$5,532,000, a 6% decrease compared to net sales of \$5,867,000 during the first six months of fiscal 2015. Lower sales of private label cat litter products by our subsidiary in Canada contributed to the sales decrease. The overall foreign operations sales decline was moderated by higher sales of animal health and nutrition products by our subsidiary in China. Net sales by our foreign subsidiaries represented 4% of our consolidated net sales during the first six months of both fiscal years 2016 and 2015.

Our foreign subsidiaries reported a net loss of \$536,000 for the first six months of fiscal 2016 compared to a net loss of \$662,000 for the first six months of fiscal 2015. The reduced loss was driven by improved operating results for our subsidiary in China.

Identifiable assets of our foreign subsidiaries as of January 31, 2016 were \$7,814,000, compared to \$7,677,000 as of January 31, 2015. The increase was due primarily to higher cash and cash equivalents and accounts receivables, which were partially offset by lower net fixed assets and inventories.

### THREE MONTHS ENDED JANUARY 31, 2016 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2015

#### CONSOLIDATED RESULTS

Consolidated net sales for the three months ended January 31, 2016 were \$65,367,000, an increase of 1% from net sales of \$64,643,000 for the three months ended January 31, 2015. Net sales were up for our Retail and Wholesale Products Group and were down slightly for our Business to Business Products Group. Consolidated net income for the second quarter of fiscal 2016 was \$3,821,000, a 37% increase from net income of \$2,797,000 for the second quarter of fiscal 2015. Operating income increased for both our Retail and Wholesale Products Group and our Business to Business Products Group. Diluted net income per share was \$0.53 for the second quarter of fiscal 2016, compared to \$0.39 for the second quarter of fiscal 2015.

Consolidated gross profit as a percentage of net sales for the second quarter of fiscal 2016 was 29%, compared to 24% for the second quarter of fiscal 2015. Gross profit was positively impacted by a 25% decline in the cost per manufactured ton for natural gas used to operate kilns that dry our clay and by lower freight and packaging costs per ton produced. Freight costs declined due primarily to lower diesel fuel costs, as well as additional capacity and some relief from unfavorable regulations in the truck freight industry. A significant amount of our packaging purchases are subject to contractual price adjustments throughout the year based on underlying commodity prices. The lower packaging costs reflected favorable price adjustments as commodity prices have declined, particularly for resin and paper-based packaging. Gross profit was negatively impacted to a lesser extent by an increase in our manufacturing repair costs.

Total selling, general and administrative expenses were higher for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015. The discussion of the segments' operating incomes below describes the selling, general and administrative expenses allocated to the operating segments, particularly higher advertising expense in the Retail and Wholesale Products Group. The remaining unallocated corporate expenses in the second quarter of fiscal 2016 included a higher estimated annual incentive bonus accrual compared to the first quarter in the prior fiscal year. The incentive bonus accruals were based on performance targets established for each fiscal year.

Interest expense was \$55,000 lower for the second quarter of fiscal 2016 compared to the same period in fiscal 2015 due primarily to a reduction of notes payable.

Our effective tax rate was 25% of pre-tax income in the second quarter of fiscal 2016, compared to 28% in the second quarter of fiscal 2015. Our effective tax rate was based on the estimated level of our taxable income for the year and the assessment of various tax deductions, including depletion.

Operating results for the second quarter of fiscal 2016 are not necessarily an indication of the results that may be expected for the remaining quarters in fiscal 2016. We believe that our integrated marketing campaign for our new and improved Fresh & Light Ultimate Care lightweight cat litter will increase advertising expenses for the remainder of the fiscal year and will reduce earnings in the third and fourth quarters of fiscal 2016. We anticipate the amount of these expenses will significantly exceed the \$10,800,000 spent when we initially created the lightweight cat litter category.





## BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal 2016 were \$22,625,000, a decrease of \$422,000, or 2%, from net sales of \$23,047,000 for the second quarter of fiscal 2015. Net sales of fluid purification products were approximately 4% lower than in the second quarter of fiscal 2015 due primarily to lower sales to edible oil producers in foreign markets where the strength of the U.S. Dollar in effect increased the price of our products compared to the price of foreign competitors' products. Net sales of animal health and nutrition products were down approximately 9% as improved sales in certain countries (including for our subsidiary in China as described in Foreign Operations below) were more than offset by sales declines in other foreign markets. Net sales of agricultural chemical carrier products increased approximately 13% due primarily to a favorable product sales mix and higher sales of both our standard and engineered granule products used by agricultural and horticultural chemical manufacturers. Sales of co-packaged coarse cat litter were slightly lower than in the second quarter of fiscal 2015.

Selling, general and administrative expenses for the Business to Business Products Group were 7% higher compared to the second quarter of fiscal 2015 due primarily to additional costs to promote new animal health and nutrition products.

The Business to Business Products Group's operating income for the second quarter of fiscal 2016 was \$7,576,000, an increase of \$133,000, or 2%, from operating income of \$7,443,000 in the second quarter of fiscal 2015. The benefits of lower costs, primarily for natural gas and freight, more than offset the higher selling, general and administrative expenses. See "Consolidated Results" above for further discussion of natural gas and freight costs.

## RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the second quarter of fiscal 2016 were \$42,742,000, an increase of \$1,146,000, or 3%, from net sales of \$41,596,000 for the second quarter of fiscal 2015. Net sales increased for cat litter products and for our United Kingdom subsidiary, which more than offset lower sales for industrial absorbent products and for our Canadian subsidiary. Our foreign subsidiaries are discussed in "Foreign Operations" below. Overall cat litter net sales were up approximately 4% compared to the second quarter of the prior year driven by a favorable product sales mix, lower trade spending and higher selling prices, which outweighed a decline in tons sold. Private label cat litter sales increased due primarily to our lightweight scoopable product, as well as new business and higher sales to existing customers for other private label scoopable products. Sales of Cat's Pride Fresh & Light lightweight cat litter also increased, while sales of other Cat's Pride scoopable and coarse cat litters declined. Sales of industrial and automotive absorbent products were down approximately 5% compared to the second quarter of fiscal 2015 due primarily to lower sales of clay-based products.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 12% higher compared to the second quarter of fiscal 2015 due primarily to increased advertising expenses, which were partially offset by reduced personnel costs.

The Retail and Wholesale Products Group reported operating income of \$4,295,000 for the second quarter of fiscal 2016, an increase of \$3,033,000, from operating income of \$1,262,000 for the second quarter of fiscal 2015. The improved operating income was driven by improved product sales mix and lower costs for natural gas, freight and packaging, which more than offset the higher selling, general and administrative expenses. See further discussion of natural gas, freight and packaging costs in "Consolidated Results" above.

## FOREIGN OPERATIONS

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and our subsidiary in China, which is included in the Business to Business Products Group. Net sales by our foreign subsidiaries during the second quarter of fiscal 2016 were \$3,019,000, a 10% increase compared to net sales of \$2,746,000 during the second quarter of fiscal 2015. Sales increased for animal health and nutrition products sold by our China subsidiary and for fluids purification products sold by our United Kingdom subsidiary. Net sales by our foreign subsidiaries represented approximately 5% and 4% of our consolidated net sales during the second quarters of fiscal 2016 and 2015, respectively.

Our foreign subsidiaries reported a net loss of \$69,000 for the second quarter of fiscal 2016 compared to a net loss of \$420,000 for the second quarter of fiscal 2015. The reduced loss was driven by the higher sales and a favorable product sales mix at our United Kingdom subsidiary.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include: funding working capital needs; purchasing and upgrading equipment, facilities and real estate; supporting new product development; investing in infrastructure; repurchasing Common Stock; paying dividends; and business acquisitions. During the first six months of fiscal 2016, we principally used cash generated from operations and from debt borrowings in prior years to fund these requirements. We also have the ability to borrow under our revolving credit agreement with BMO Harris Bank N.A. (“BMO Harris”), as described further below, however we have not borrowed under the credit agreement in recent years. Cash and cash equivalents decreased \$6,311,000 during the first six months of fiscal 2016 to \$13,827,000, while short term investments increased \$12,902,000 during the same period to \$15,092,000 as of January 31, 2016.

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

	For the Six Months Ended January 31,	
	2016	2015
Net cash provided by operating activities	\$17,051	\$10,607
Net cash used in investing activities	(17,446	) (7,967
Net cash used in financing activities	(5,949	) (6,092
Effect of exchange rate changes on cash and cash equivalents	33	(15
Net decrease in cash and cash equivalents	\$(6,311	) \$(3,467

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 six months of fiscal years 2016 and 2015 were as follows:

Accounts receivable, less allowance for doubtful accounts, decreased \$652,000 in the first six months of fiscal 2016 compared to an increase of \$1,258,000 in the first six months of fiscal 2015. The changes in both periods were impacted by the level and timing of sales and collections, as well as the payment terms provided to various customers.

Inventories increased \$1,674,000 in the first six months of fiscal 2016 compared to a decrease of \$822,000 in the first six months of fiscal 2015. Finished goods, packaging and additives inventories were higher in the first six months of fiscal 2016 in anticipation of sales requirements for the second half of the fiscal year. Finished goods inventory was down in the first six months of fiscal 2015 as lower sales required fewer tons to be held in inventory, which was partially offset by an increase in additives inventories due to favorable purchasing opportunities.

Prepaid expenses increased \$2,671,000 in the first six months of fiscal 2016 compared to a decrease of \$1,628,000 in the first six months of fiscal 2015. Prepaid advertising increased in the first six months of fiscal 2016 due to the timing of marketing activities. Annual insurance premiums were paid in the first six months of both fiscal 2016 and 2015. Premiums paid in fiscal 2016 increased due to a change in the risk management approach for our workers' compensation insurance plan. Prepaid expenses decreased in the first six months of fiscal 2015 due primarily to reclassification of prepaid rents and royalties to other long-term assets and a decrease in prepaid income taxes.

Other assets increased \$118,000 in the first six months of fiscal 2016 compared to an increase of \$1,205,000 in the first six months of fiscal 2015. The cash surrender value of life insurance on former key employees increased in both periods. The increase in the first six months of fiscal 2015 also included the reclassification of prepaid rents and royalties from current prepaid expenses.

Accounts payable decreased \$201,000 in the first six months of fiscal 2016 compared to a decrease of \$1,232,000 in the first six months of fiscal 2015. Trade and freight payables varied in both periods due to timing of payments, fluctuations in the cost of goods and services we purchased, production volume levels and vendor payment terms. In the first six months of fiscal 2016, lower costs contributed to a lower freight accrual, which was partially offset by higher accrued income taxes. The decrease in the first six months of fiscal 2015 included lower accrued freight due to a change in vendor payment terms.

Accrued expenses increased \$3,295,000 in the first six months of fiscal 2016 compared to a decrease of \$867,000 in the first six months of fiscal 2015. Accrued salaries included the discretionary incentive bonus accrual, which in the first six months of both fiscal 2016 and 2015 decreased by the payout of the prior fiscal year's bonus and increased by the amount of the current fiscal year's first six months' accrual. The estimated incentive bonus accrued for the first six months of fiscal 2016 was higher than the payout of the bonus for fiscal 2015 based on the financial results. In the first six months of fiscal 2015, the purchase of plant

equipment previously under a capital lease significantly reduced accrued expenses. Accrued trade promotions and advertising in the first six months of both fiscal 2016 and 2015 varied due to the timing of marketing programs. In addition, similar to accounts payable, accrued plant expenses fluctuated due to timing of payments, changes in the cost of goods and services we purchased, production volume levels and vendor payment terms.

Other liabilities increased \$980,000 in the first six months of fiscal 2016 compared to an increase of \$172,000 in the first six months of fiscal 2015. Leasehold improvements provided by the landlord of our corporate office were recorded as a deferred lease liability in the first six months of fiscal 2016.

#### Net cash used in investing activities

Cash used in investing activities was \$17,446,000 in the first six months of fiscal 2016 compared to cash used in investing activities of \$7,967,000 in the first six months of fiscal 2015. Cash used for capital expenditures was \$4,795,000 and \$9,920,000 in the first six months of fiscal 2016 and 2015, respectively. Major initiatives for new processing and packaging equipment and capacity expansion projects were substantially completed during fiscal 2015. Net purchases of short-term investments used cash of \$12,900,000 in the first six months of fiscal 2016, while net dispositions provided cash of \$1,701,000 in the first six months of fiscal 2015. Purchases and dispositions of investment securities in both periods are impacted by variations in the timing of investment maturities, the operating cash needs of the Company and the availability of investment options.

#### Net cash used in financing activities

Cash used in financing activities was \$5,949,000 in the first six months of fiscal 2016 compared to cash used in financing activities of \$6,092,000 in the first six months of fiscal 2015. Scheduled payments on long-term debt were \$3,484,000 and \$3,500,000 in the first six months of fiscal 2016 and 2015, respectively. Dividend payments in the first six months of fiscal 2016 were \$2,783,000 compared to \$2,623,000 paid during the same period of fiscal 2015 due to a dividend increase.

#### Other

Total cash and investment balances held by our foreign subsidiaries of \$1,499,000 as of January 31, 2016 were higher than the January 31, 2015 balances of \$1,154,000. See further discussion in "Foreign Operations" above.

We have a \$25,000,000 unsecured revolving credit agreement with BMO Harris which expires on December 4, 2019. The agreement also provides for a maximum of \$5,000,000 for foreign letters of credit. Under the agreement 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 January 31, 2016, the variable rates would have been 3.50% for the BMO Harris prime-based rate or 1.62% for the 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 six months ended January 31, 2016 and 2015, and we were in compliance with its covenants.

As of January 31, 2016, we had remaining authority to repurchase 305,361 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 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. Our cash requirements are subject to change as business conditions warrant and opportunities arise. We expect to significantly increase expenditures for advertising in the second half of fiscal 2016. 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 January 31, 2016 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	\$15,416	\$3,083	\$6,167	\$6,166	\$—
Interest on Notes Payable	1,842	611	865	366	—
Operating Leases	15,334	1,448	2,553	1,775	9,558
Total Contractual Cash Obligations	\$32,592	\$5,142	\$9,585	\$8,307	\$9,558

We made total contributions to our defined benefit pension plan of \$599,000 during the first six months of fiscal 2016. We estimate contributions of approximately \$679,000 will be made during the remainder of fiscal 2016. 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
	\$31,619	\$31,619	\$—	\$—	\$—

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, 2015.

## Recently Issued Regulations

In May 2014, the FASB issued guidance under ASC 606, 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 permitted. The implementation date for this guidance was recently deferred and will now be effective at the beginning of our first quarter of fiscal year 2019. We are currently evaluating the impact of the adoption of this 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 ending July 31, 2017. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In April 2015, the FASB issued guidance under ASC 835, Simplifying the Presentation of Debt Issuance Cost, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, rather than as an asset. This guidance is effective for our first quarter of fiscal year 2017 and early adoption is permitted. The guidance must be applied on a retrospective basis. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In July 2015, the FASB issued guidance under ASC 330, Simplifying the Measurement of Inventory. The new guidance requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This new guidance is effective for our first quarter of fiscal year 2018 and early adoption is permitted. The guidance must be applied prospectively. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In November 2015, the FASB issued guidance under ASC 740, Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This guidance is effective for our first quarter of fiscal year 2018 and early adoption is permitted. The guidance may be applied either prospectively or retrospectively to all periods presented. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In January 2016, the FASB issued guidance under ASC 825, Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The provisions relevant to us at this time require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, as well as eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value in such disclosure. This guidance is effective for our first quarter of fiscal year 2019 and early adoption is generally not permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In February 2016, the FASB issued guidance under ASC 842, Leases, which provides that for leases with a term greater than 12 months, a lessee must recognize in the statement of financial position both a liability to make lease payments and an asset representing its right to use the underlying asset. Other requirements describe expense recognition, as well as financial statement presentation and disclosure. This guidance is effective for our first quarter of fiscal year 2020 using a modified retrospective approach, which includes a number of optional practical expedients. Early adoption is permitted. We are currently evaluating the impact of the adoption of this 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 the U.S. Dollar relative to the British Pound, Euro, Canadian Dollar, Chinese Yuan and the Brazilian Real, as related to our foreign subsidiaries, to certain accounts receivable, and to our ability to sell in foreign markets. We are subject to translation exposure of our foreign subsidiaries' financial statements from local currencies to U.S. Dollars. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated sales or net income. In addition, the portion of our consolidated accounts receivable denominated in foreign currencies is not significant. Finally, foreign sales of our products may be influenced by the relative strength or weakness of the U.S. Dollar compared to various other currencies, which makes our products relatively more or less expensive than our foreign competitors' products in local marketplaces. Foreign currency fluctuations had some bearing on our operating results in the first six months of fiscal 2016; however, historically the overall foreign currency fluctuation risk has not been material to our Consolidated Financial Statements and in the second six months of fiscal 2016 we did not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates.

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 purchased natural gas at spot rates on a month to month basis in the first six months of fiscal 2016; however, in the second half of fiscal 2016 we plan to purchase natural gas contracts for a limited number of future periods.

#### 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 January 31, 2016 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	Second Amendment to the Oil-Dri Corporation of America 2006 Long Term Incentive Plan	Incorporated by reference to Appendix A of the Company's (File No. 001-12622) Definitive Proxy Statement on Schedule 14A filed on October 28, 2015.
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: March 9, 2016

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EXHIBITS

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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](mailto:info@oildri.com).