

OIL DRI CORP OF AMERICA
Form 10-Q
March 11, 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
X Securities Exchange Act of 1934
For the Quarterly Period Ended January 31, 2014
- or
- Transition Report Pursuant to Section 13 or 15(d) of the
o 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 36-2048898
(State or other jurisdiction of incorporation or (I.R.S. Employer
organization) Identification No.)

410 North Michigan Avenue, Suite 400 60611-4213
Chicago, Illinois (Zip Code)
(Address of principal executive offices)

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 x No o

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 x No o

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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, 2014.

Common Stock – 4,978,567 Shares and Class B Stock – 2,074,927 Shares

CONTENTS

PART I – FINANCIAL INFORMATION		
Item 1:	<u>Financial Statements</u>	Page <u>3</u>
Item 2:	<u>Management’s Discussion and Analysis of Financial Condition and Results Of Operations</u>	<u>18</u>
Item 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
Item 4:	<u>Controls and Procedures</u>	<u>27</u>
PART II – OTHER INFORMATION		
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	<u>28</u>
Item 4:	<u>Mine Safety Disclosures</u>	<u>28</u>
Item 6:	<u>Exhibits</u>	<u>29</u>
	<u>Signatures</u>	<u>30</u>

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, 2013. 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)

ASSETS	January 31, 2014	July 31, 2013
Current Assets		
Cash and cash equivalents	\$ 12,082	\$ 24,035
Restricted cash	500	—
Short-term investments	7,100	18,459
Accounts receivable, less allowance of \$683 and \$641 at January 31, 2014 and July 31, 2013, respectively	37,022	31,148
Inventories	22,734	20,723
Deferred income taxes	3,540	3,986
Prepaid repairs expense	3,288	3,458
Prepaid expenses and other assets	3,087	1,563
Total Current Assets	89,353	103,372
Property, Plant and Equipment		
Cost	188,915	184,137
Less accumulated depreciation and amortization	(119,956)	(118,082)
Total Property, Plant and Equipment, Net	68,959	66,055
Other Assets		
Goodwill	8,553	5,162
Trademarks and patents, net of accumulated amortization of \$439 and \$427 at January 31, 2014 and July 31, 2013, respectively	661	581
Debt issuance costs, net of accumulated amortization of \$488 and \$455 at January 31, 2014 and July 31 2013, respectively	277	309
Licensing agreements and non-compete agreements, net of accumulated amortization of \$1,986 and \$1,861 at January 31, 2014 and July 31, 2013, respectively	253	378
Customer list, net of accumulated amortization of \$255 at January 31, 2014	7,530	—
Deferred income taxes	2,740	2,164
Other	5,534	5,538
Total Other Assets	25,548	14,132
Total Assets	\$ 183,860	\$ 183,559

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)

LIABILITIES & STOCKHOLDERS' EQUITY	January 31, 2014	July 31, 2013
Current Liabilities		
Current maturities of notes payable	\$3,500	\$3,500
Accounts payable	7,699	6,483
Dividends payable	1,242	1,236
Accrued expenses:		
Salaries, wages and commissions	4,674	9,087
Trade promotions and advertising	3,188	2,824
Freight	2,480	2,154
Other	6,344	6,163
Total Current Liabilities	29,127	31,447
Noncurrent Liabilities		
Notes payable	18,900	22,400
Deferred compensation	8,976	8,569
Pension and postretirement benefits	16,778	16,362
Other	2,021	1,843
Total Noncurrent Liabilities	46,675	49,174
Total Liabilities	75,802	80,621
Stockholders' Equity		
Common Stock, par value \$.10 per share, issued 7,894,460 shares at January 31, 2014 and 7,866,560 shares at July 31, 2013	789	787
Class B Stock, par value \$.10 per share, issued 2,399,668 shares at January 31, 2014 and 2,394,487 shares at July 31, 2013	240	239
Additional paid-in capital	32,446	31,317
Restricted unearned stock compensation	(2,277)	(1,824)
Retained earnings	137,422	132,750
Accumulated other comprehensive income:		
Unrealized gain on marketable securities	84	86
Pension and postretirement benefits	(5,495)	(5,608)
Cumulative translation adjustment	193	487
Total accumulated other comprehensive loss	(5,218)	(5,035)
Less Treasury Stock, at cost (2,915,893 Common and 324,741 Class B shares at January 31, 2014 and 2,914,567 Common and 324,741 Class B shares at July 31, 2013)	(55,344)	(55,296)
Total Stockholders' Equity	108,058	102,938
Total Liabilities & Stockholders' Equity	\$183,860	\$183,559

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,	
	2014	2013
Net Sales	\$ 132,851	\$ 122,539
Cost of Sales	(99,458)	(89,039)
Gross Profit	33,393	33,500
Selling, General and Administrative Expenses	(23,317)	(23,654)
Capacity Rationalization Charges	—	(62)
Income from Operations	10,076	9,784
Other Income (Expense)		
Interest expense	(809)	(927)
Interest income	16	17
Other, net	140	214
Total Other Income (Expense), Net	(653)	(696)
Income Before Income Taxes	9,423	9,088
Income taxes	(2,255)	(2,490)
Net Income	7,168	6,598
Retained Earnings:		
Balance at beginning of period	132,750	122,901
Cash dividends declared and treasury stock issuances	(2,496)	(3,502)
Balance at end of period	\$ 137,422	\$ 125,997
Net Income Per Share		
Basic Common	\$ 1.09	\$ 1.02
Basic Class B	\$ 0.82	\$ 0.77
Diluted	\$ 1.01	\$ 0.94
Average Shares Outstanding		
Basic Common	4,967	4,887
Basic Class B	1,999	1,960
Diluted	6,991	6,904

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,	
	2014	2013
Net Income	\$7,168	\$6,598
Other Comprehensive Income (net of tax):		
Unrealized loss on marketable securities	(2	) (2
Pension and postretirement benefits	113	300
Cumulative translation adjustment	(294	) 23
Other Comprehensive (Loss) Income	(183	) 321
Total Comprehensive Income	\$6,985	\$6,919

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,	
	2014	2013
Net Sales	\$69,305	\$61,122
Cost of Sales	(52,412)	(44,853)
Gross Profit	16,893	16,269
Selling, General and Administrative Expenses	(11,159)	(12,834)
Capacity Rationalization Charges	—	(50)
Income from Operations	5,734	3,385
Other Income (Expense)		
Interest expense	(385)	(446)
Interest income	6	8
Other, net	175	84
Total Other Income (Expense), Net	(204)	(354)
Income Before Income Taxes	5,530	3,031
Income taxes	(1,249)	(885)
Net Income	4,281	2,146
Net Income Per Share		
Basic Common	\$0.65	\$0.33
Basic Class B	\$0.49	\$0.25
Diluted	\$0.60	\$0.31
Average Shares Outstanding		
Basic Common	4,979	4,896
Basic Class B	2,005	1,976
Diluted	7,007	6,922

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,	
	2014	2013
Net Income	\$4,281	\$2,146
Other Comprehensive Income (net of tax):		
Unrealized gain (loss) on marketable securities	6	(5)
Pension and postretirement benefits	56	150
Cumulative translation adjustment	(227)	7
Other Comprehensive (Loss) Income	(165)	152
Total Comprehensive Income	\$4,116	\$2,298

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 Six Months Ended	
	January 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$7,168	\$6,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,860	4,475
Amortization of investment net discount	(2	) (3
Non-cash stock compensation expense	560	413
Excess tax benefits for share-based payments	(21	) (199
Deferred income taxes	79	184
Provision for bad debts	45	36
Loss on the sale of fixed assets	13	7
Capacity rationalization charges	—	62
(Increase) Decrease in assets, net of acquisition:		
Accounts receivable	(5,919	) (812
Inventories	(1,347	) (2,513
Prepaid expenses	(725	) 879
Other assets	(312	) 24
Increase (Decrease) in liabilities, net of acquisition:		
Accounts payable	381	(168
Accrued expenses	(3,558	) 690
Deferred compensation	407	281
Pension and postretirement benefits	528	882
Other liabilities	243	(25
Total Adjustments	(4,768	) 4,213
Net Cash Provided by Operating Activities	2,400	10,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(6,782	) (5,009
Proceeds from sale of property, plant and equipment	16	34
Acquisition of business	(12,505) —
Restricted cash	(500) —
Purchases of short-term investments	(7,991	) (12,147
Dispositions of short-term investments	19,352	10,925
Net Cash Used in Investing Activities	(8,410	) (6,197
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(3,500	) (2,300
Dividends paid	(2,478	) (4,630
Purchase of treasury stock	(13	) (175
Proceeds from issuance of treasury stock	39	82
Proceeds from issuance of common stock	12	571
Excess tax benefits for share-based payments	21	199
Net Cash Used in Financing Activities	(5,919) (6,253

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Effect of exchange rate changes on cash and cash equivalents	(24) (24)
Net Decrease in Cash and Cash Equivalents	(11,953) (1,663)
Cash and Cash Equivalents, Beginning of Period	24,035	27,093	
Cash and Cash Equivalents, End of Period	\$12,082	\$25,430	

The accompanying notes are an integral part of the condensed consolidated financial statements.

9

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, 2013 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 and six months ended January 31, 2014 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2014.

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. Estimates and assumptions are revised periodically. Actual results could differ from these estimates.

Under the terms of our sales agreements with customers, we recognize revenue when risk of loss and title are transferred. An invoice is generated upon shipment that sets the fixed and determinable price. Trade promotion reserves are provided for sales incentives made directly to consumers, such as coupons, and 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 evaluate our allowance for doubtful accounts utilizing a combination of historical experience and periodic review of our accounts receivable aging and specific customer account analysis. 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.

As part of our overall operations, we mine sorbent materials on property that we either own or lease. 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. The

pre-production overburden removal costs associated with opening a new mine are deferred as prepaid expense and amortized.

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

In the first quarter of fiscal 2014 we adopted new guidance from the Financial Accounting Standard Board (“FASB”) issued under Accounting Standard Codification (“ASC”) 220, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance required presentation by the respective net income line items, either on the face of the statement where net income is presented or in the notes, of information about significant amounts required to be reclassified out of accumulated other comprehensive income (“AOCI”). We elected to present the reclassifications in the notes to the financial statements. See Note 8 for additional information regarding amounts reclassified from AOCI.

In the first quarter of fiscal 2014 we considered the FASB guidance issued under ASC 350, Testing Indefinite-Lived Intangible Assets for Impairment, which provides the option to first assess qualitative factors to determine if the annual two-step test for impairment must be performed. Based on the relevant events and circumstances that could have affected the significant inputs used to determine the fair value of our indefinite-lived intangible assets, we determined that it is more likely than not that these assets are not impaired and we did not perform a quantitative impairment assessment. There was no impact on our condensed consolidated financial statements as a result of this new guidance.

3. INVENTORIES

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

	January 31, 2014	July 31, 2013
Finished goods	\$13,130	\$12,112
Packaging	5,191	4,003
Other	4,413	4,608
Total Inventories	\$22,734	\$20,723

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 quarterly 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 allowance 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, 2014 and July 31, 2013 were \$348,000 and \$364,000, 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.

Financial assets and liabilities whose values are based on valuation techniques that require inputs that are Level 3: 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 January 31, 2014 (in thousands)		
	Total	Level 1	Level 2
Assets			
Cash equivalents	\$3,555	\$3,555	\$—
Marketable equity securities	87	87	—
Cash surrender value of life insurance	4,493	—	4,493

Cash equivalents are 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. These securities represent stock we own in one publicly traded company and are included in other assets on the condensed Consolidated Balance Sheets.

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions and dividend accumulations. The cash surrender value represents the guaranteed value we would receive upon surrender of these policies held on former key employees as of January 31, 2014. The cash surrender value of life insurance is included in other assets on the condensed Consolidated Balance Sheets.

The short-term investments on the condensed Consolidated Balance Sheets includes U.S. Treasury securities and certificates of deposit. We have the ability to hold our short-term investments to maturity and intend to do so; therefore, these investments were reported at amortized cost on the condensed Consolidated Balance Sheets, which approximated fair value as of January 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 January 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 includes a receivable for the amount due to us upon the sale of the real property retained by MFM Industries Inc. ("MFM") per the acquisition agreement described in Note 9. The portion of the acquisition purchase cost assigned to this receivable of \$500,000 is estimated based on the fair value of the real property. The fair value was determined using a market valuation approach and is classified as Level 3. This receivable will be carried at the allocated purchase cost and will be evaluated for impairment on an ongoing basis; therefore, this amount is excluded from the above table.

The carrying values of notes payable approximated their fair values at January 31, 2014 and are excluded from the above table. The estimated fair value of notes payable, including current maturities, was \$23,981,000 as of January 31, 2014. 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 and indefinite-lived intangible assets and (2) valuing potential impairment loss related to long-lived assets. Our annual goodwill impairment analysis was performed in the first quarter of fiscal 2014 and did not indicate any

impairment.

12

5. 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		For the Six Months Ended	
	Ended January 31,	2013	January 31,	2013
	2014		2014	
Service cost	\$361	\$417	\$721	\$876
Interest cost	435	384	871	772
Expected return on plan assets	(429	) (373	) (858	) (755
Amortization of:				
Prior service costs	4	4	7	7
Other actuarial loss	78	220	156	442
Net periodic benefit cost	\$449	\$652	\$897	\$1,342
	Postretirement Health Benefits			
	(in thousands)			
	For the Three Months		For the Six Months Ended	
	Ended January 31,	2013	January 31,	2013

Our plan covering postretirement health benefits is an unfunded plan. We have funded the pension plan based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum and the maximum contribution requirements of various regulations. We contributed \$230,000 to our pension plan during the second quarter ended January 31, 2014. We estimate contributions will be \$601,000 for the remainder of fiscal 2014. 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,				
	2014	2013	2014	2013	
Discount rate for net periodic benefit cost	4.80	% 3.75	% 4.80	% 3.75	%
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 8.0%. The graded trend rate is expected to decrease to an ultimate rate of 5.0% in fiscal 2024.

6. OPERATING SEGMENTS

We have two operating segments: (1) Retail and Wholesale Products and (2) Business to Business Products. These segments are managed separately because each business has different customer characteristics. 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, 2013.

We do not rely on any operating 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, 2014	July 31, 2013
	(in thousands)	
Business to Business Products	\$55,116	\$53,721
Retail and Wholesale Products	91,207	76,376
Unallocated Assets	37,537	53,462
Total Assets	\$183,860	\$183,559

	For the Six Months Ended January 31,			
	Net Sales		Income	
	2014	2013	2014	2013
	(in thousands)			
Business to Business Products	\$49,179	\$43,497	\$15,644	\$14,624
Retail and Wholesale Products	83,672	79,042	4,257	6,460
Total Sales	\$132,851	\$122,539		
Corporate Expenses			(9,825	) (11,238
Capacity Rationalization Charges			—	(62
Income from Operations			10,076	9,784
Total Other Expense, Net			(653	) (696
Income before Income Taxes			9,423	9,088
Income Taxes			(2,255	) (2,490
Net Income			\$7,168	\$6,598

	For the Three Months Ended January 31,			
	Net Sales		Income	
	2014	2013	2014	2013
	(in thousands)			
Business to Business Products	\$25,264	\$21,715	\$7,993	\$7,101
Retail and Wholesale Products	44,041	39,407	2,982	1,936
Total Sales	\$69,305	\$61,122		
Corporate Expenses			(5,241)	(5,602)
Capacity Rationalization Charges			—	(50)
Income from Operations			5,734	3,385
Total Other Expense, Net			(204)	(354)
Income before Income Taxes			5,530	3,031
Income Taxes			(1,249)	(885)
Net Income			\$4,281	\$2,146

7. 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 recognized 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.

The Oil-Dri Corporation of America Outside Director Stock Plan provides for grants of stock options to directors. Stock options have been granted to our directors with a one year vesting period. There are no shares available for future grants under this plan. All shares of stock issued under this plan were from treasury stock.

Stock Options

A summary of stock option transactions as of January 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, July 31, 2013	60	\$14.25	2.3	\$1,059
Exercised	(4)	\$12.00		\$90
Forfeitures	(8)	\$9.43		
Options outstanding, January 31, 2014	48	\$15.27	2.3	\$911
Options exercisable, January 31, 2014	48	\$15.27	2.3	\$911

There were no stock options exercised during the second quarter of fiscal 2014. The amount of cash received from the exercise of stock options during the second quarter of fiscal 2013 was \$591,000 and the related tax benefit was \$255,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2014 was \$51,000 and the related tax benefit

was \$24,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2013 was \$652,000 and the related tax benefit was \$268,000.

No stock options were granted in the first six months of either fiscal 2014 or 2013.

Restricted Stock

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

Under the 2006 Plan, no new restricted shares of common stock were granted in the second quarter of either fiscal 2014 or fiscal 2013. In the first quarter of fiscal 2014, 22,000 restricted shares of Common Stock and 10,000 restricted shares of Class B stock were granted. In the first quarter of fiscal 2013, 7,000 restricted shares of Class B stock were granted.

Included in our stock-based compensation expense in the second quarter of fiscal years 2014 and 2013 was \$319,000 and \$210,000, respectively, related to non-vested restricted stock. In the first six months of fiscal years 2014 and 2013, the expense related to unvested restricted stock was \$560,000 and 413,000, respectively.

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, 2013	117	\$22.24
Vested	(27	) \$21.67
Granted	32	\$34.55
Forfeitures	(4	) \$21.80
Non-vested restricted stock outstanding at January 31, 2014	118	\$25.72

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income by component as of January 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, 2013	\$86	\$ (5,608	) \$487	\$ (5,035
Other comprehensive income before reclassifications, net of tax	(2	) —	(294	) (296
Amounts reclassified from accumulated other comprehensive income, net of tax	—	113	a) —	113
Net current-period other comprehensive income, net of tax	(2	) 113	(294	) (183
Balance as of January 31, 2014	\$84	\$ (5,495	) \$193	\$ (5,218

a) Amount is net of tax expense of \$70,000. Amounts are included in the components of net periodic benefit cost for the pension and postretirement health plans. See Note 5 for further information.

9. ACQUISITION

On November 1, 2013, we acquired certain assets of MFM, a company engaged in the manufacturing, marketing and distribution of primarily private label cat litter. MFM and its parent company, MFM Delaware, Inc., had filed for bankruptcy in May 2013. The purchase of MFM's cat litter business assets was a strategic business decision intended to expand our private label cat litter

business. We did not acquire any land or mineral rights nor did we operate the MFM plant. MFM's customers' orders were transitioned to our existing cat litter manufacturing plants which had available capacity and were producing similar cat litter products.

This transaction qualifies as a business combination for accounting purposes, therefore the assets acquired were recorded at their respective estimated fair values at the date of acquisition. The excess of the purchase price over those fair values is recorded as goodwill. The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date. The fair values are subject to refinement within the measurement period as we finalize our valuations.

	Estimated Fair Value as of November 1, 2013 (in thousands)
Consideration transferred:	
Cash	\$ 12,505
Contingent Consideration	500
Fair value of total consideration transferred	13,005
Recognized amounts of identifiable assets acquired:	
Inventories	\$ 664
Current assets	630
Deferred taxes - current	190
Equipment	299
Deferred taxes - noncurrent	46
Customer list	7,785
Total identifiable net assets	9,614
Goodwill	\$ 3,391

Inventories acquired included finished goods, packaging supplies and raw materials. The inventory fair value was determined using the comparative sales method approach.

The MFM purchase agreement provides that we will receive half of the proceeds upon the sale of the real property retained by MFM. The receivable was valued at \$500,000 based upon the fair value of the real property, which was determined using a market valuation approach, which may not be the ultimate sale price of the property. We expect to receive these proceeds within a year since MFM is required to sell the real property in order to resolve its bankruptcy proceedings. This receivable is included in current assets on the condensed Consolidated Balance Sheets. Current assets also includes a \$130,000 prepaid asset for MFM deposits held by packaging suppliers to which we are entitled.

Various machinery and equipment purchased was valued primarily using a market valuation approach; however, a cost approach was used for certain equipment for which appropriate market comparisons were not available.

We deposited \$500,000 in an escrow account to fund our maximum obligation to indemnify MFM for expenses incurred to prepare and sell the real property retained by MFM. We expect the full escrow amount to be spent within a year. The cash held in escrow is shown as restricted cash and the corresponding liability is included in current liabilities on the condensed Consolidated Balance Sheets.

We acquired a customer list which was recorded as an intangible asset at fair value using an income valuation approach. The valuation process estimated the present value of the anticipated benefits in excess of the returns on the

contributory assets required to realize those benefits. The value of the customer list will be amortized over a period of 10 years with an accelerated amortization rate in the earlier years to reflect the expected pattern of decline in the related benefits over time. This customer list is related to the Retail and Wholesale Products Group segment. The goodwill recorded from the acquisition is primarily attributable to anticipated synergies of our product portfolios. All of the goodwill recognized is deductible for tax purposes. This goodwill is related to the Retail and Wholesale Products Group segment.

17

Deferred taxes reflects primarily the difference between the book basis and tax basis of the accrued expense to indemnify MFM for costs incurred to prepare and sell the real property retained by MFM.

We incurred \$120,000 of acquisition-related costs, primarily in the first quarter of fiscal 2014, which are included in selling, general and administrative expenses on the condensed Consolidated Statements of Income and Retained Earnings.

The summarized proforma financial information below presents the combined results of operations as if the acquisition of MFM had occurred as of August 1, 2012. MFM's pre-acquisition results have been added to Oil-Dri's historical results and include certain adjustments related to the acquisition, such as amortization of intangible assets and depreciation expense. These proforma results do not include any anticipated cost synergies and do not reflect the actual results of operations that would have been achieved, nor are they indicative of future results of operations. The following proforma results are presented for comparative purposes only (unaudited) (in thousands, except per share amounts):

	Three months ended		Six months ended	
	January 31,		January 31,	
	2014	2013	2014	2013
Proforma net sales	\$69,305	\$66,697	\$137,817	\$133,794
Proforma net income	\$4,209	\$2,057	\$6,802	\$6,335
Proforma net income per share - Basic Common	\$0.64	\$0.32	\$1.04	\$0.98
Proforma net income per share - Basic Class B	\$0.48	\$0.24	\$0.78	\$0.74
Proforma net income per share - Diluted	\$0.59	\$0.29	\$0.96	\$0.90

The net sales for MFM-related customers after the acquisition that are included in our condensed consolidated financial statements for the second quarter of fiscal 2014 were approximately \$3,000,000. The amount of net income specifically attributed to these customers cannot be determined because MFM's customers' orders were fulfilled in our existing cat litter manufacturing plants and with our existing sales team and logistics processes.

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, 2013. 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, 2013.

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 6 of the notes to condensed consolidated financial statements.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JANUARY 31, 2014 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2013

CONSOLIDATED RESULTS

Consolidated net sales for the six months ended January 31, 2014 were \$132,851,000, an increase of 8% from net sales of \$122,539,000 for the six months ended January 31, 2013. Consolidated net income for the first six months of fiscal 2014 was \$7,168,000, compared to \$6,598,000 for the first six months of fiscal 2013. Diluted net income per share was \$1.01 for the first six months of fiscal 2014, compared to \$0.94 for the first six months of fiscal 2013.

Consolidated net sales for the first six months of fiscal 2014 improved due to strong growth in both our operating segments. Our Business to Business Products Group also benefited from a favorable product sales mix (defined as a greater proportion of sales from higher priced products) and higher net selling prices. Consolidated net income for the first six months of fiscal 2014 increased primarily due to the sales growth and a reduction in selling, general and administrative expenses, which was partially offset by increased freight and packaging costs, the rising cost of fuel used in our manufacturing processes, as well as higher non-fuel manufacturing costs. Operating income improved for our Business to Business Products Group, but declined for our Retail and Wholesale Products Group compared to the first six months of fiscal 2013.

Our consolidated gross profit as a percentage of net sales for the first six months of fiscal 2014 was 25%, which was lower than the 27% reported for the first six months of fiscal 2013. Gross profit declined due primarily to the increased costs of packaging and freight, as described by operating segment below, and higher material costs per ton, which included a 33% increase in the cost of natural gas used to operate kilns that dry our clay. Material costs also included a 3% increase in non-fuel manufacturing cost per ton produced, which was driven primarily by repair and labor costs.

Selling, general and administrative expenses as a percentage of net sales for the first six months of fiscal 2014 were 18%, compared to 19% for the first six months of fiscal 2013. The discussions of the segments' operating incomes below describe the change in the selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in the first six months of fiscal 2014 included a lower estimated annual incentive plan bonus accrual than the prior year. The incentive bonus expense was based on performance targets that were established for the fiscal year.

Interest expense was \$118,000 lower for the first six months of fiscal 2014 compared to the same period in fiscal 2013 due to a reduction of notes payable.

Our effective tax rate was 24% of pre-tax income in the first six months of fiscal 2014, which was lower than the 27% rate reported in the first six months of fiscal 2013. Our effective tax rate is based on the projected composition and estimated level of our taxable income for the year.

We believe net income for the second half of fiscal 2014 will be negatively impacted by cost pressures. This expectation is based on the assumptions that higher natural gas and other manufacturing costs will persist throughout fiscal 2014 and our effective tax rate for the year will be closer to historic norms rather than the approximate 17% reported for the full year of fiscal 2013. We also expect advertising expenditures for the full year of fiscal 2014 to be higher than in fiscal 2013.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal 2014 were \$49,179,000, an increase of \$5,682,000, or 13%, from net sales of \$43,497,000 for the first six months of fiscal 2013. The net sales increase was attributed to 3% more tons sold, a favorable product sales mix and higher net selling prices. Net sales of fluid purification products were up approximately 17% due primarily to 11% more tons sold. Sales improved in both domestic and foreign markets as the result of global growth in edible oil production. Net sales of animal health and nutrition products increased approximately 33% due primarily to more sales in foreign markets. Net sales of agricultural products increased 8% primarily for agricultural chemical carriers sold to corn rootworm pesticide producers and for other agricultural applications. Our co-packaged traditional coarse cat litter net sales were down slightly compared to the first six months of the prior year.

The Business to Business Products Group's operating income for the first six months of fiscal 2014 was \$15,644,000, an increase of \$1,020,000, or 7%, from operating income of \$14,624,000 in the first six months of fiscal 2013. Operating income was positively impacted by the improved sales described above, but was negatively impacted by a combined approximate 12% increase in materials, freight and packaging costs. Material costs rose primarily due to a higher price paid for natural gas used to operate kilns

that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in “Consolidated Results” above. The increase in freight costs was attributed primarily to more shipments to foreign countries and other cost increases in the freight industry which we expect to continue. Packaging cost increases were driven primarily by supplier price increases.

Selling, general and administrative expenses for the Business to Business Products Group increased 18% compared to the first six months of fiscal 2013 due primarily to expenses incurred for start up costs for our new subsidiary in China, Amlan International Trading (Shenzhen) Co., Ltd., as well as for sales commissions and product development.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first six months of fiscal 2014 were \$83,672,000, an increase of \$4,630,000, or 6%, from net sales of \$79,042,000 for the first six months of fiscal 2013. Net sales for our cat litter products increased; however, sales declined for our industrial absorbents and for our foreign subsidiaries. Our foreign subsidiaries are discussed under “Foreign Operations” below. Overall cat litter net sales were up approximately 10%. The benefit of higher sales volume was partially offset by increased trade spending (trade spending reduces net sales). Our branded cat litter net sales increase of approximately 15% was attributed to approximately 47% more net sales of our Cat's Pride Fresh & Light products, as well as higher sales of our other Cat's Pride scoopable and coarse litter products. Private label cat litter sales increased approximately 5% due in part to additional sales from the acquisition of MFM. (See Note 9 of the notes to the condensed consolidated financial statements for more information about the MFM acquisition.) Industrial absorbents net sales declined slightly compared to the first six months of fiscal 2013.

The Retail and Wholesale Products Group's operating income for the first six months of fiscal 2014 was \$4,257,000, a decrease of \$2,203,000, or 34%, from operating income of \$6,460,000 for the first six months of fiscal 2013. The benefit of higher sales discussed above was more than offset by a combined approximate 5% increase in costs for packaging, freight, and materials and by increased selling, general and administrative expenses, as discussed below. Packaging costs are up due to supplier price increases and the mix of products sold. The increase in freight costs was attributed primarily to more shipments to customers in regions with higher freight costs and other cost increases in the freight industry which we expect to continue. Material costs per ton rose primarily due to a higher price paid for natural gas used to operate kilns that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in “Consolidated Results” above.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 5% higher compared to the first six months of fiscal 2013 due to increased expenses for sales commissions and amortization of intangible assets acquired in the MFM acquisition. Expenditures for advertising and promotions in the first six months of fiscal 2014 were slightly less than for the same period in fiscal 2013; however, we expect advertising and promotional expenditures for the full year of fiscal 2014 to be greater than in fiscal 2013.

FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the first six months of fiscal 2014 were \$5,582,000, a 9% decrease compared to net sales of \$6,153,000 during the first six months of fiscal 2013. The net sales decrease was attributed primarily to lower cat litter sales by our Canadian subsidiary due to increased competition, which was partially offset by a favorable sales mix of fluids purification products sold by our United Kingdom subsidiary. Net sales by our foreign subsidiaries represented 4% and 5% of our consolidated net sales during the first six months of fiscal years 2014 and 2013, respectively.

Our foreign subsidiaries reported a net loss of \$242,000 for the first six months of fiscal 2014 compared to a net loss of \$146,000 for the first six months of fiscal 2013. The increase in net loss was due primarily to lower sales described above, which was partially offset by our United Kingdom subsidiary's sales mix including a greater proportion of higher margin products and favorable currency exchange rates.

Identifiable assets of our foreign subsidiaries as of January 31, 2014 were \$7,504,000, compared to \$8,569,000 as of January 31, 2013. The decrease was due primarily to lower accounts receivable, net fixed assets, inventories and cash and cash equivalents.

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

CONSOLIDATED RESULTS

Consolidated net sales for the three months ended January 31, 2014 were \$69,305,000, an increase of 13% from net sales of \$61,122,000 for the three months ended January 31, 2013. Consolidated net income for the second quarter of fiscal 2014 was \$4,281,000, compared to \$2,146,000 for the second quarter of fiscal 2013. Diluted net income per share was \$0.60 for the second quarter of fiscal 2014, compared to \$0.31 for the second quarter of fiscal 2013.

Consolidated net sales for the second quarter of fiscal 2014 improved due to strong growth in both our operating segments. Our Business to Business Products Group benefited from a favorable product sales mix and higher net selling prices. Consolidated net income for the second quarter of fiscal 2014 increased primarily due to the higher sales and lower selling, general and administrative costs, which were partially offset by increased freight and packaging costs and the rising cost of fuel used in our manufacturing processes. Operating income improved for both of our operating segments.

Our consolidated gross profit as a percentage of net sales for the second quarter of fiscal 2014 was 24%, which was lower than the 27% reported for the second quarter of fiscal 2013. Gross profit declined due primarily to the increased cost of freight and packaging, as described by operating segment below, and 7% higher material costs per ton, which included a 28% increase in the cost of natural gas used to operate kilns that dry our clay and higher labor costs. We also sold more private label cat litter which generally has a lower gross profit than branded cat litter.

Selling, general and administrative expenses as a percentage of net sales for the second quarter of fiscal 2014 were 16%, compared to 21% for the second quarter of fiscal 2013. The discussions of the segments' operating incomes below describe 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 second quarter of fiscal 2014 included a lower estimated annual incentive plan bonus accrual. The incentive bonus expense was based on performance targets that were established for the fiscal year.

Interest expense was \$61,000 lower for the second quarter of fiscal 2014 compared to the same period in fiscal 2013 due to a reduction of notes payable.

Our effective tax rate was 23% of pre-tax income in the second quarter of fiscal 2014, which was lower than the 29% rate reported in the second quarter of fiscal 2013. Our effective tax rate is based on the projected composition and estimated level of our taxable income for the year.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal 2014 were \$25,264,000, an increase of \$3,549,000, or 16%, from net sales of \$21,715,000 for the second quarter of fiscal 2013. The net sales increase was attributed to 3% more tons sold, a favorable product sales mix and higher net selling prices. Net sales of fluid purification products were approximately 13% higher due primarily to 7% more tons sold. Sales improved in both domestic and foreign markets as the result of global growth in edible oil production. Net sales of animal health and nutrition products increased approximately 69% due primarily to higher sales and a favorable product sales mix in foreign markets. Net sales of agricultural products increased 19% for chemical carriers and other agricultural applications. Our co-packaged traditional coarse cat litter net sales were down slightly compare to the second quarter of the prior year.

The Business to Business Products Group's operating income for the second quarter of fiscal 2014 was \$7,993,000, an increase of \$892,000, or 13%, from operating income of \$7,101,000 in the second quarter of fiscal 2013. Operating income was positively impacted by the improved sales described above, but was negatively impacted primarily by increased materials and freight costs. Material costs increased due primarily to a higher price paid for natural gas used to operate kilns that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in "Consolidated Results" above. The increase in freight costs was attributed primarily to more shipments to foreign countries and other cost increases in the freight industry which we expect to continue. Packaging cost increases were driven primarily by supplier price increases.

Selling, general and administrative expenses for the Business to Business Products Group increased 19% compared to the second quarter of fiscal 2013 due primarily to expenses incurred for start up costs for our new subsidiary in China, Amlan International Trading (Shenzhen) Co., Ltd., sales commissions and product development.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the second quarter of fiscal 2014 were \$44,041,000, an increase of \$4,634,000 from net sales of \$39,407,000 for the second quarter of fiscal 2013. Net sales for our cat litter products increased; however, sales declined for our industrial absorbents and for our foreign subsidiaries. Our foreign subsidiaries are discussed under “Foreign Operations” below. Overall cat litter net sales increased approximately 19%. The benefit of higher sales volume was partially offset by increased trade spending. Our branded cat litter net sales increase of approximately 18% was attributed to approximately 60% more net sales of our Cat's Pride Fresh & Light products, as well as higher sales of our other Cat's Pride scoopable and coarse litter products. Private label cat litter sales increased approximately 24% due in part to additional sales from the acquisition of MFM. (See Note 9 of the notes to the condensed consolidated financial statements for more information about the MFM acquisition.) Industrial absorbents net sales declined slightly compared to the second quarter of fiscal 2013.

The Retail and Wholesale Products Group's operating income for the second quarter of fiscal 2014 was \$2,982,000, an increase of \$1,046,000 from operating income of \$1,936,000 for the second quarter of fiscal 2013. The benefits of the increased sales and lower selling, general and administrative expenses, as discussed below, were partially offset by higher packaging and materials costs. Packaging costs are up due to supplier price increases and the mix of products sold. Material costs per ton rose primarily due to a higher price paid for natural gas used to operate kilns that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in “Consolidated Results” above. We also sold more private label cat litter, which generally has a lower gross profit than branded cat litter.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 29% lower compared to the second quarter of fiscal 2013 due to decreased advertising and promotion expenditures, which were partially offset by increased amortization costs for intangible assets acquired in the MFM acquisition. Despite lower expenditures for advertising and promotions in the second quarter of fiscal 2014, we expect advertising and promotional expenditures for the full year of fiscal 2014 to be greater than in fiscal 2013.

FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the second quarter of fiscal 2014 were \$2,604,000, a 21% decrease compared to net sales of \$3,307,000 during the second quarter of fiscal 2013. The net sales decrease was attributed to lower sales of cat litter products in our Canadian subsidiary due to increased competition and reduced export sales of fluids purification products by our United Kingdom subsidiary. Net sales by our foreign subsidiaries represented 4% and 5% of our consolidated net sales during the second quarter of fiscal years 2014 and 2013, respectively.

Our foreign subsidiaries reported a net loss of \$125,000 for the second quarter of fiscal 2014 compared to net income of \$21,000 for the second quarter of fiscal 2013. The net loss was due primarily to lower sales and higher material and freight costs for our Canadian subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, purchasing real estate, equipment and facilities, funding new product development and investing in infrastructure, repurchasing Common Stock, paying dividends and, from time to time, making acquisitions. During the first six months of fiscal 2014, 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 \$11,953,000 during the first six months of fiscal 2014 to \$12,082,000 at January 31,

2014.

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

	For the Six Months Ended January	
	31,	
	2014	2013
Net cash provided by operating activities	\$2,400	\$10,811
Net cash used in investing activities	(8,410	) (6,197
Net cash used in financing activities	(5,919	) (6,253
Effect of exchange rate changes on cash and cash equivalents	(24	) (24
Net decrease in cash and cash equivalents	\$(11,953	) \$(1,663

22

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 2014 and 2013, were as follows:

Accounts receivable, less allowance for doubtful accounts, increased \$5,874,000 in the first six months of fiscal 2014 compared to an increase of \$779,000 in the first six months of fiscal 2013. Sales in the first six months of fiscal 2014 were significantly higher than in the first six months of fiscal 2013. The change in both periods is also subject to the timing of sales and collections and the payment terms provided to various customers.

Inventories increased \$1,347,000 in the first six months of fiscal 2014 compared to an increase of \$2,513,000 in the same period in fiscal 2013. Finished goods inventory was up in the first six months of fiscal 2014 primarily due to higher costs and increased tons in inventory to meet the increased sales requirements. Packaging inventories were up due to higher costs and production projections for certain products. Finished goods inventories increased in the first six months of fiscal 2013 due to more tons and the mix of products in inventory, including increased agricultural products to meet forecasted needs.

Prepaid expenses increased \$725,000 in the first six months of fiscal 2014 compared to a decrease of \$879,000 in the first six months of fiscal 2013. The change in the first six months of fiscal 2014 was due to increases in both prepaid insurance and prepaid advertising costs. During the first six months of fiscal 2013, a decrease in prepaid income taxes and deferred trade spending outweighed an increase in prepaid insurance. Prepaid insurance increased in both periods due to the timing of insurance premium payments.

Other assets increased \$312,000 in the first six months of fiscal 2014 compared to a decrease of \$24,000 in the first six months of fiscal 2013.

Accounts payable increased \$381,000 in the first six months of fiscal 2014 compared to a decrease of \$168,000 in the first six months of fiscal 2013. An increase in trade accounts payable was partially offset by a decrease in accrued income taxes in the first six months of fiscal 2014. In the first six months of fiscal 2013, a decrease in trade accounts payable was partially offset by an increase in accrued income taxes. Trade payables varied in both periods due to timing of payments, cost fluctuations for goods and services we purchased and production volume levels.

Accrued expenses decreased \$3,558,000 in the first six months of fiscal 2014 compared to an increase of \$690,000 in the first six months of fiscal 2013. Accrued salaries included the discretionary incentive bonus accrual, which in the first six months of both fiscal 2014 and 2013 decreased by the payout of the prior fiscal year's discretionary incentive bonus accrual and increased by the current fiscal year's first six months' discretionary incentive bonus accrual. The payout in the first six months of fiscal 2014 was substantially higher than the payout in the first six months of fiscal 2013. Accrued trade promotions and advertising in the first six months of both fiscal 2014 and 2013 varied due to the timing of marketing programs. Accrued freight changed in both years due to the timing of payments and shipments at quarter-end. 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 \$407,000 in the first six months of fiscal 2014 compared to an increase of \$281,000 in the first six months of fiscal 2013. Deferred compensation balances in both periods were reduced by scheduled payouts and were increased by employee deferrals and interest earned on accumulated deferred compensation balances.

Pension and other postretirement liabilities increased \$528,000 in the first six months of fiscal 2014 compared to an increase of \$882,000 in the first six months of fiscal 2013. The liability increase for both periods was determined based on actuarial estimates using various assumptions. See Note 5 of the notes to condensed consolidated financial statements for further discussion of our postretirement benefit obligations.

Other liabilities increased \$243,000 in the first six months of fiscal 2014 compared to a decrease of \$25,000 in the first six months of fiscal 2013. A reclassification of the accrual for uncertain tax positions to long-term contributed to the increase for the first six months of fiscal 2014.

Net cash used in investing activities

Cash used in investing activities was \$8,410,000 in the first six months of fiscal 2014 compared to net cash used in investing activities of \$6,197,000 in the first six months of fiscal 2013. In the first six months of fiscal 2014, \$12,505,000 of cash was used in the acquisition of MFM, plus an additional \$500,000 was classified as restricted cash held in escrow at January 31, 2014. See

Note 9 of the notes to condensed consolidated financial statements for additional information about the MFM acquisition. Disposition of investment securities exceeded purchases by \$11,361,000 in the first six months of fiscal 2014. Purchases of investment securities exceeded dispositions by \$1,222,000 in the first six months of fiscal 2013. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. Cash used for capital expenditures of \$6,782,000 in the first six months of fiscal 2014 was primarily for capacity expansion projects and replacement of machinery at our manufacturing facilities. Cash used for capital expenditures of \$5,009,000 for the same period in fiscal 2013 was primarily for improvement and replacement of machinery at our manufacturing facilities.

Net cash used in financing activities

Cash used in financing activities was \$5,919,000 in the first six months of fiscal 2014 compared to cash used in financing activities of \$6,253,000 in the first six months of fiscal 2013. Scheduled payments on long-term debt in the first six months of fiscal 2014 were \$3,500,000 compared to \$2,300,000 in the first six months of fiscal 2013. Dividend payments in the first six months of fiscal 2014 were \$2,478,000 compared to \$4,630,000 paid during the same period of fiscal 2013 due to an acceleration of the third and fourth quarter dividend payments in fiscal 2013.

Other

Total cash and investment balances held by our foreign subsidiaries of \$1,250,000 at January 31, 2014 were lower than the January 31, 2013 balances of \$1,331,000 due to continued operating losses as discussed in "Foreign Operations" above.

We have a \$15,000,000 unsecured revolving credit agreement with BMO Harris Bank N.A. ("BMO Harris") which will expire on December 31, 2014. While there can be no assurance regarding the terms, timing or consummation of any successor agreement, on or before the expiration of this agreement, we may enter into a successor credit agreement with BMO Harris or another financing source. The credit agreement with BMO Harris provides that we may select a variable rate based on either 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. The credit agreement also allows us to obtain foreign letters of credit when necessary. At January 31, 2014, the variable rates would have been 3.25% for BMO Harris' prime-based rate or 1.58% 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 six months ended January 31, 2014 and 2013 and we were in compliance with its covenants.

As of January 31, 2014, we had remaining authority to repurchase 311,871 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 and current cash and investment balances 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 expect cash requirements for capital expenditures in fiscal 2014 to be higher than in fiscal 2013 due to projects at our manufacturing facilities, including capacity expansion projects for our fluids purification products. In addition, advertising and promotions spending in fiscal 2014 is expected to be greater than in fiscal 2013. We used \$12,505,000 of our existing cash and investment balances to acquire certain assets of MFM in the first six months of fiscal 2014, as described in Note 9 of the notes to the condensed consolidated financial statements. Our capital requirements are

subject to change as business conditions warrant and opportunities arise. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements, including, but not limited to, the 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 at January 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	\$22,400	\$3,500	\$6,566	\$6,167	\$6,167
Interest on Notes Payable	3,560	962	1,366	865	367
Operating Leases	8,375	2,842	2,536	2,317	680
Contingent Liability	500	500			
Total Contractual Cash Obligations	\$34,835	\$7,804	\$10,468	\$9,349	\$7,214

The contingent liability in the above table represents our maximum obligation under the MFM purchase agreement described in Note 9 of the condensed consolidated financial statements.

We made total contributions to our defined benefit pension plan of \$437,000 during the first six months of fiscal 2014. We estimate contributions of approximately \$601,000 will be made during the remainder of fiscal 2014. 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
Other Commercial Commitments	\$30,575	\$30,575	\$—	\$—	\$—

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, 2013.

Recently Adopted Accounting Standards

In the first quarter of fiscal 2014 we adopted new guidance from the FASB issued under ASC 220, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance required presentation by the respective net income line items, either on the face of the statement where net income is presented or in the notes, of information about significant amounts required to be reclassified out of AOCI. We elected to present the reclassifications in the notes to the financial statements. See Note 8 of the notes to consolidated

financial statements for additional information regarding amounts reclassified from AOCI.

In the first quarter of fiscal 2014 we considered the FASB guidance issued under ASC 350, Testing Indefinite-Lived Intangible Assets for Impairment, which provides the option to first assess qualitative factors to determine if the annual two-step test for impairment must be performed. Based on the relevant events and circumstances that could have affected the significant inputs used to determine the fair value of our indefinite-lived intangible assets, we determined that it is more likely than not that these assets are not impaired and we did not perform a quantitative impairment assessment. There was no impact on our condensed consolidated financial statements as a result of this new guidance.

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 six months of fiscal 2014 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 2014. 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 January 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, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended January 31, 2014, we did not sell any securities which were not registered under the Securities Act of 1933. The following chart summarizes our Common Stock purchases during this period.

ISSUER PURCHASES OF EQUITY SECURITIES ¹

	(a)	(b)	(c)	(d)
For the Three Months Ended January 31, 2014	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under Plans or Programs ²
November 1, 2013 to November 30, 2013	—	\$—	—	312,197
December 1, 2013 to December 31, 2013	326	\$37.84	326	311,871
January 1, 2014 to January 31, 2014	—	\$—	—	311,871

¹ The table summarizes repurchases of (and remaining authority to repurchase) shares of our Common Stock. We did not repurchase any shares of our Class B Stock during the period in question, and no shares of our Class A Common Stock are currently outstanding. Descriptions of our Common Stock, Class B Stock and Class A Common Stock are contained in Note 7 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2013 filed with the SEC.

² Our Board of Directors authorized repurchases of 250,000 shares on March 11, 2011 and authorized the repurchase of an additional 250,000 shares on June 14, 2012. These authorizations do not have a stated expiration date. The share numbers in this column indicate the number of shares of Common Stock that may yet be repurchased under these authorizations. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock.

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
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 11, 2014

30

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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.