

OIL DRI CORP OF AMERICA  
Form 10-Q  
March 10, 2010

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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, 2010

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 and (2) has been subject to such filing requirements for at least the past 90 days. Yes  No

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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

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, 2010.

Common Stock – 5,203,937 Shares and Class B Stock – 1,919,476 Shares

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## CONTENTS

|   | Page           |
|---|----------------|
| <b>PART I – FINANCIAL INFORMATION</b>   |                |
| Item 1: Financial Statements  | <u>3 - 16</u>  |
| Item 2: Management’s Discussion and Analysis of Financial Condition and Results Of Operations | <u>17 - 25</u> |
| Item 3: Quantitative and Qualitative Disclosures About Market Risk                            | <u>25 - 26</u> |
| Item 4: Controls and Procedures   | <u>27</u>      |
| <b>PART II – OTHER INFORMATION</b>  |                |
| Item 2: Unregistered Sales of Equity Securities and Use of Proceeds                           | <u>28</u>      |
| Item 4: Submission of Matters to a Vote of Security Holders                                   | <u>29</u>      |
| Item 6: Exhibits  | <u>29</u>      |
| Signatures  | <u>30</u>      |
| Exhibits  | <u>31</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 we file with the Commission 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,” “anticipate,” “believe,” 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, 2009, which risk factors are incorporated herein by reference. 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. You 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

Agsorb, Calibrin, Cat's Pride, ConditionAde, Flo-Fre, Jonny Cat, KatKit, Oil-Dri, Pel-Unite, Perform, Poultry Guard, Pro Mound, Pure-Flo, Rapid Dry, Select, Terra-Green, and Ultra-Clear are all registered trademarks of Oil-Dri Corporation of America or of its subsidiaries. Pro's Choice, Saular and Verge are trademarks of Oil-Dri Corporation of America. Fresh Step is a registered trademark of The Clorox Company.

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(in thousands of dollars)  
(unaudited)

| ASSETS  | January 31,<br>2010 | July 31,<br>2009  |
|---|---------------------|-------------------|
| <b>Current Assets</b>   |                     |                   |
| Cash and cash equivalents   | \$ 20,864           | \$ 11,839         |
| Investment in securities  | 5,999               | 7,998             |
| Accounts receivable, less allowance of \$578 and \$652 at January 31, 2010 and July 31, 2009, respectively  | 27,210              | 29,000            |
| Inventories   | 16,985              | 17,795            |
| Deferred income taxes   | 1,080               | 1,080             |
| Prepaid repairs expense   | 3,992               | 4,345             |
| Prepaid expenses and other assets   | 1,903               | 1,660             |
| Total Current Assets  | 78,033              | 73,717            |
| <b>Property, Plant and Equipment</b>  |                     |                   |
| Cost  | 172,617             | 169,130           |
| Less accumulated depreciation and amortization  | (112,247 )          | (109,645 )        |
| Total Property, Plant and Equipment, Net  | 60,370              | 59,485            |
| <b>Other Assets</b>   |                     |                   |
| Goodwill  | 5,162               | 5,162             |
| Trademarks and patents, net of accumulated amortization of \$366 and \$351 at January 31, 2010 and July 31, 2009, respectively                              | 634                 | 649               |
| Debt issuance costs, net of accumulated amortization of \$498 and \$473 at January 31, 2010 and July 31, 2009, respectively                                 | 281                 | 306               |
| Licensing agreements and non-compete agreements, net of accumulated amortization of \$3,486 and \$3,361 at January 31, 2010 and July 31, 2009, respectively | 1,253               | 1,378             |
| Deferred income taxes   | 4,026               | 4,144             |
| Other   | 4,107               | 4,420             |
| Total Other Assets  | 15,463              | 16,059            |
| <b>Total Assets</b>   | <b>\$ 153,866</b>   | <b>\$ 149,261</b> |

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

3

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OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(in thousands of dollars)  
(unaudited)

| LIABILITIES & STOCKHOLDERS' EQUITY  | January 31,<br>2010 | July 31,<br>2009 |
|---|---------------------|------------------|
| <b>Current Liabilities</b>  |                     |                  |
| Current maturities of notes payable   | \$4,500             | \$3,200          |
| Accounts payable  | 5,450               | 5,304            |
| Dividends payable   | 997                 | 994              |
| Accrued expenses:   |                     |                  |
| Salaries, wages and commissions   | 5,061               | 5,794            |
| Trade promotions and advertising  | 2,386               | 2,073            |
| Freight   | 1,725               | 1,073            |
| Other   | 5,881               | 5,330            |
| Total Current Liabilities   | 26,000              | 23,768           |
| <b>Noncurrent Liabilities</b>   |                     |                  |
| Notes payable   | 16,800              | 18,300           |
| Deferred compensation   | 6,281               | 5,892            |
| Pension and postretirement benefits   | 11,269              | 10,491           |
| Other   | 1,269               | 1,247            |
| Total Noncurrent Liabilities  | 35,619              | 35,930           |
| Total Liabilities   | 61,619              | 59,698           |
| <b>Stockholders' Equity</b>   |                     |                  |
| Common Stock, par value \$.10 per share, issued<br>7,516,458 shares at January 31, 2010 and 7,475,171<br>shares at July 31, 2009                                      | 752                 | 747              |
| Class B Stock, par value \$.10 per share, issued<br>2,244,217 shares at January 31, 2010 and 2,240,201<br>shares at July 31, 2009                                     | 224                 | 224              |
| Additional paid-in capital  | 23,847              | 23,366           |
| Restricted unearned stock compensation  | (310 )              | (383 )           |
| Retained earnings   | 114,042             | 111,593          |
| Accumulated Other Comprehensive Income  |                     |                  |
| Unrealized gain on marketable securities  | 55                  | 40               |
| Pension and postretirement benefits   | (4,487 )            | (4,584 )         |
| Cumulative translation adjustment   | 319                 | 282              |
|   | 134,442             | 131,285          |
| Less Treasury Stock, at cost (2,312,521 Common and 324,741<br>Class B shares at January 31, 2010 and 2,282,521 Common and<br>324,741 Class B shares at July 31, 2009) | (42,195 )           | (41,722 )        |
| Total Stockholders' Equity  | 92,247              | 89,563           |

|  |           |           |
|--|-----------|-----------|
| Total Liabilities & Stockholders' Equity | \$153,866 | \$149,261 |
|--|-----------|-----------|

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<br>January 31, |            |
|--|---|------------|
|  | 2010                                    | 2009       |
| Net Sales  | \$ 108,138                              | \$ 122,258 |
| Cost of Sales  | (83,145 )                               | (97,969 )  |
| Gross Profit   | 24,993                                  | 24,289     |
| Selling, General and Administrative Expenses         | (18,158 )                               | (17,080 )  |
| Income from Operations                               | 6,835                                   | 7,209      |
| <b>Other Income (Expense)</b>                        |   |            |
| Interest expense                                     | (715 )                                  | (983 )     |
| Interest income                                      | 74                                      | 261        |
| Other, net   | 82                                      | (232 )     |
| Total Other Income (Expense), Net                    | (559 )                                  | (954 )     |
| Income Before Income Taxes                           | 6,276                                   | 6,255      |
| Income taxes   | (1,820 )                                | (1,637 )   |
| Net Income   | 4,456                                   | 4,618      |
| <b>Retained Earnings</b>                             |   |            |
| Balance at beginning of year                         | 111,593                                 | 105,966    |
| Cash dividends declared and treasury stock issuances | (2,007 )                                | (1,947 )   |
| Retained Earnings – January 31                       | \$ 114,042                              | \$ 108,637 |
| <b>Net Income Per Share</b>                          |   |            |
| Basic Common   | \$ 0.67                                 | \$ 0.70    |
| Basic Class B  | \$ 0.50                                 | \$ 0.53    |
| Diluted  | \$ 0.61                                 | \$ 0.64    |
| <b>Average Shares Outstanding</b>                    |   |            |
| Basic Common   | 5,200                                   | 5,129      |
| Basic Class B  | 1,885                                   | 1,868      |
| Diluted  | 7,259                                   | 7,196      |

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

5

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

|   | For The Six Months Ended |          |
|---|--------------------------|----------|
|   | January 31,              |          |
|   | 2010                     | 2009     |
| Net Income                                      | \$ 4,456                 | \$ 4,618 |
| Other Comprehensive Income:                     |                          |          |
| Unrealized gain (loss) on marketable securities | 15                       | (38 )    |
| Pension and postretirement benefits             | 97                       | 24       |
| Cumulative translation adjustment               | 37                       | (877 )   |
| Total Comprehensive Income                      | \$ 4,605                 | \$ 3,727 |

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

6

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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<br>Ended<br>January 31 |           |
|--|---|-----------|
|  | 2010  | 2009      |
| Net Sales                                    | \$54,734                                    | \$59,130  |
| Cost of Sales                                | (42,064 )                                   | (47,217 ) |
| Gross Profit                                 | 12,670                                      | 11,913    |
| Selling, General and Administrative Expenses | (9,187 )                                    | (8,342 )  |
| Income from Operations                       | 3,483                                       | 3,571     |
| Other Income (Expense)                       |   |           |
| Interest expense                             | (341 )                                      | (478 )    |
| Interest income                              | 34  | 96        |
| Other, net                                   | 45  | (11 )     |
| Total Other Income (Expense), Net            | (262 )                                      | (393 )    |
| Income Before Income Taxes                   | 3,221                                       | 3,178     |
| Income taxes                                 | (959 )                                      | (806 )    |
| Net Income                                   | \$2,262                                     | \$2,372   |
| Net Income Per Share                         |   |           |
| Basic Common                                 | \$0.34                                      | \$0.36    |
| Basic Class B                                | \$0.26                                      | \$0.27    |
| Diluted                                      | \$0.31                                      | \$0.33    |
| Average Shares Outstanding                   |   |           |
| Basic Common                                 | 5,206                                       | 5,131     |
| Basic Class B                                | 1,890                                       | 1,873     |
| Diluted                                      | 7,269                                       | 7,199     |

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

7

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

|  | For The Three Months Ended<br>January 31 |          |
|--|--|----------|
|  | 2010                                     | 2009     |
| Net Income                               | \$ 2,262                                 | \$ 2,372 |
| Other Comprehensive Income:              |  |          |
| Unrealized loss on marketable securities | (2 )                                     | (22 )    |
| Pension and postretirement benefits      | 43                                       | 12       |
| Cumulative translation adjustment        | 50                                       | (103 )   |
| Total Comprehensive Income               | \$ 2,353                                 | \$ 2,259 |

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

8

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

|  | For The Six Months<br>Ended January 31, |           |
|--|---|-----------|
|  | 2010                                    | 2009      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |           |
| Net Income   | \$4,456                                 | \$4,618   |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |   |           |
| Depreciation and amortization  | 3,711                                   | 3,684     |
| Amortization of investment discount  | (6 )                                    | (109 )    |
| Non-cash stock compensation expense  | 173                                     | 257       |
| Excess tax benefits for share-based payments   | (88 )                                   | (169 )    |
| Deferred income taxes  | 67                                      | (5 )      |
| Provision for bad debts  | (52 )                                   | 73        |
| Loss on the sale of fixed assets   | 63                                      | 24        |
| (Increase) Decrease in:  |   |           |
| Accounts receivable  | 1,842                                   | (89 )     |
| Inventories  | 810                                     | (1,491 )  |
| Prepaid expenses   | 109                                     | (803 )    |
| Other assets   | 329                                     | (1,321 )  |
| Increase (Decrease) in:  |   |           |
| Accounts payable   | 285                                     | (972 )    |
| Accrued expenses   | 783                                     | (2,784 )  |
| Deferred compensation  | 388                                     | 119       |
| Other liabilities  | 893                                     | 914       |
| Total Adjustments  | 9,307                                   | (2,672 )  |
| Net Cash Provided by Operating Activities  | 13,763                                  | 1,946     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |           |
| Capital expenditures   | (4,818 )                                | (7,757 )  |
| Proceeds from sale of property, plant and equipment                                  | 337                                     | 11        |
| Purchases of investment securities   | (14,995 )                               | (52,969 ) |
| Dispositions of investment securities  | 17,000                                  | 59,500    |
| Net Cash (Used in) Investing Activities  | (2,476 )                                | (1,215 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |   |           |
| Principal payments on notes payable  | (200 )                                  | (4,080 )  |
| Dividends paid   | (1,991 )                                | (1,838 )  |
| Purchase of treasury stock   | (538 )                                  | (649 )    |
| Proceeds from issuance of treasury stock   | 52                                      | 70        |
| Proceeds from issuance of common stock   | 297                                     | 272       |
| Excess tax benefits for share-based payments   | 88                                      | 169       |
| Other, net   | 26                                      | (349 )    |
| Net Cash Used in Financing Activities  | (2,266 )                                | (6,405 )  |
| Effect of exchange rate changes on cash and cash equivalents                         | 4                                       | 1,098     |

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|  |          |          |
|--|----------|----------|
| Net Increase (Decrease) in Cash and Cash Equivalents | 9,025    | (4,576 ) |
| Cash and Cash Equivalents, Beginning of Year         | 11,839   | 6,848    |
| Cash and Cash Equivalents, January 31                | \$20,864 | \$2,272  |

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 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, 2009 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

The unaudited condensed consolidated financial statements include the accounts of the parent company and its subsidiaries. All significant intercompany transactions are eliminated.

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 the six months ended January 31, 2010 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2010.

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 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. Upon shipment an invoice is generated that sets the fixed and determinable price. Promotional reserves are provided for sales incentives made directly to consumers and customers and 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 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 a historical experience and a periodic review of our accounts receivable aging and specific customer account analysis. A customer 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 maintain and monitor a list of customers whose creditworthiness has diminished.

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 that is then 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.

During the normal course of our overburden removal activities we perform ongoing reclamation activities. As overburden is removed from a pit, it is hauled to previously mined pits and used to refill older sites. This process allows us to continuously reclaim older pits and dispose of overburden simultaneously, therefore minimizing the liability for the reclamation function.

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 can be offset against future royalties due upon extraction of the mineral are also capitalized. All exploration related costs are expensed as incurred.

## 2. SIX MONTHS ENDED JANUARY 31, 2010 RESULTS OF OPERATIONS

The results of operations for the six months ending January 31, 2010 included an increase in cost of sales of approximately \$400,000 related to an overstatement of supplies inventory at one of our manufacturing facilities as of July 31, 2009. The overstatement of inventory had accumulated over a number of years, and was the result of alleged theft. This increase was offset by the expected receipt of insurance proceeds related to the supplies inventory overstatement; a receivable for which was recorded in the first quarter of fiscal 2010. The net effect of the two adjustments resulted in no impact to net income. We have determined that the adjustment to supplies inventory was not material to the first six months of fiscal 2010 or any previously reported period.

## 3. NEW ACCOUNTING PRONOUNCEMENTS

### Recently Adopted Accounting Standards

For this Quarterly Report on Form 10-Q for the quarter ending January 31, 2010 we adopted the FASB guidance issued in February 2010 under ASC 855-10 Subsequent Events. This guidance amended several definitions and removed the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The adoption of this guidance resulted in revised disclosures and had no impact on our consolidated financial statements.

### Recently Issued Accounting Standards

In December 2008, the FASB issued guidance under ASC 715-20 Compensation – Retirement Benefits that will require expanded disclosure for employers' pension and other postretirement benefit plan assets fair value measurements, investment policies and strategies for the major categories of plan assets and significant concentrations of risk within plan assets. The adoption of the guidance will result in enhanced disclosures in our fiscal 2010 Annual Report on Form 10-K, but will have no impact on our consolidated financial statements.

In January 2010, the FASB issued guidance under ASC 820-10 Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements that will require new disclosures and provides clarification of existing disclosures about fair value measurements. Adoption of certain provisions related to the reconciliation of changes in fair value measurements using significant unobservable inputs will result in enhanced disclosures in our Quarterly Report on Form 10-Q for the quarter ending October 31, 2010. Other provisions of this guidance will require enhanced disclosures for fair value measurements in our Quarterly Report on Form 10-Q for the quarter ending April 30, 2010. Adoption of this guidance in either period affects disclosures only and will have no impact on our consolidated financial statements.

## 4. INVENTORIES

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

|                | January 31,<br>2010 | July 31,<br>2009 |
|----------------|---------------------|------------------|
| Finished goods | \$ 10,808           | \$ 10,568        |
| Packaging      | 2,783               | 3,474            |
| Other          | 3,394               | 3,753            |
|                | \$ 16,985           | \$ 17,795        |

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, 2010 and July 31, 2009 were \$282,000 and \$274,000, respectively.

## 5. 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 one of three categories based on the lowest level of input that is significant to the fair value measurement. The categories in the hierarchy are:

- Level 1: Financial assets and liabilities whose values are based on quoted market prices in active markets for identical assets or liabilities.
- Level 2: Financial assets and liabilities whose values are based on:
  - 1) Quoted prices for similar assets or liabilities in active markets.
  - 2) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  - 3) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Financial assets and liabilities whose values are based on valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. 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, 2010<br>(in thousands) |           |         |
|--|--|-----------|---------|
|  | Total  | Level 1   | Level 2 |
| Assets                                 |  |           |         |
| Cash equivalents                       | \$ 11,222  | \$ 11,222 | \$ --   |
| Marketable equity securities           | 58   | 58        | --      |
| Cash surrender value of life insurance | 3,707  | --        | 3,707   |

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.

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.

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models and represents the guaranteed value we would receive upon surrender of these policies as of January 31, 2010. These life insurance policies are held on key employees.

The carrying values of investments in securities, accounts receivable, accounts payable and notes payable approximate their fair values at January 31, 2010 and July 31, 2009, due to the short maturity and nature of those balances and are not included in the above table. The investments in securities consisted of U.S. Treasury securities carried at amortized cost. The estimated fair value of long-term debt, including current maturities, was approximately \$21,422,000 and \$21,523,000 as of January 31, 2010 and July 31, 2009, respectively.

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.



## 6. PENSION AND OTHER POST RETIREMENT BENEFITS

The components of net periodic pension benefits cost of our sponsored defined benefit plans were as follows:

|  | PENSION PLAN           |        |                     |        |
|--|------------------------|--------|---------------------|--------|
|  | (dollars in thousands) |        |                     |        |
|  | Three Months Ended     |        | Six Months Ended    |        |
|  | January 31,<br>2010    | 2009   | January 31,<br>2010 | 2009   |
| Components of net periodic pension benefit cost: |                        |        |                     |        |
| Service cost                                     | \$301                  | \$211  | \$569               | \$421  |
| Interest cost                                    | 252                    | 334    | 708                 | 668    |
| Expected return on plan assets                   | (217 )                 | (325 ) | (583 )              | (650 ) |
| Net amortization                                 | 59                     | (12 )  | 137                 | 24     |
|  | \$395                  | \$232  | \$831               | \$463  |

We have funded the plan 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 the Employee Retirement Income Security Act of 1974, as amended. We did not make a contribution to our pension plan during the six months ended January 31, 2010. We intend to make a contribution to the pension plan during the current fiscal year approximately equal to the annual actuarial determined cost. We currently estimate this amount to be approximately \$900,000. 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.

The components of the net periodic postretirement health benefit cost were as follows:

|   | POST RETIREMENT HEALTH BENEFITS |      |                     |      |
|---|---------------------------------|------|---------------------|------|
|   | (dollars in thousands)          |      |                     |      |
|   | Three Months Ended              |      | Six Months Ended    |      |
|   | January 31,<br>2010             | 2009 | January 31,<br>2010 | 2009 |
| Components of net periodic postretirement benefit cost: |                                 |      |                     |      |
| Service cost  | \$16                            | \$15 | \$37                | \$31 |
| Interest cost   | 16                              | 24   | 48                  | 47   |
| Amortization of net transition obligation               | 4                               | 4    | 8                   | 8    |
| Net actuarial loss                                      | 5                               | 4    | 10                  | 7    |
|   | \$41                            | \$47 | \$103               | \$93 |

Our plan covering postretirement health benefits is an unfunded plan.

Assumptions used in the previous calculations were as follows:

| PENSION PLAN                    |                     | POST RETIREMENT HEALTH BENEFITS |                     |
|---------------------------------|---------------------|---------------------------------|---------------------|
| For three and six months ended: |                     |                                 |                     |
| January 31,<br>2010             | January 31,<br>2009 | January 31,<br>2010             | January 31,<br>2009 |
|                                 |                     |                                 |                     |

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|   |           |   |           |   |           |   |           |   |
|---|-----------|---|-----------|---|-----------|---|-----------|---|
| Discount rate for net periodic benefit cost | 6.00      | % | 7.00      | % | 6.00      | % | 7.00      | % |
| Rate of increase in compensation levels     | 4.00      | % | 4.00      | % | --        |   | --        |   |
| Long-term expected rate of return on assets | 7.50      | % | 7.50      | % | --        |   | --        |   |
| Measurement date                            | 7/31/2009 |   | 7/31/2008 |   | 7/31/2009 |   | 7/31/2008 |   |
| Census date                                 | 8/1/2009  |   | 8/1/2007  |   | 8/1/2009  |   | 8/1/2007  |   |

The medical cost trend assumption for postretirement health benefits was a graded rate starting at 9% and decreasing to an ultimate rate of 5% in 1% annual increments.

7.

## SEGMENT REPORTING

We have two operating segments: Retail and Wholesale Products and 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, 2009 filed with the SEC.

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 annual incentive plan bonus accrual.

|                               | Assets              |                  |
|-------------------------------|---------------------|------------------|
|                               | January 31,<br>2010 | July 31,<br>2009 |
|                               | (in thousands)      |                  |
| Business to Business Products | \$ 43,144           | \$ 42,581        |
| Retail and Wholesale Products | 64,801              | 69,300           |
| Unallocated Assets            | 45,921              | 37,380           |
| Total Assets                  | \$ 153,866          | \$ 149,261       |

|  | Six Months Ended January 31, |           |                          |          |
|--|------------------------------|-----------|--------------------------|----------|
|  | Net Sales<br>2010            | 2009      | Operating Income<br>2010 | 2009     |
|  | (in thousands)               |           |                          |          |
| Business to Business Products            | \$36,133                     | \$38,849  | \$9,426                  | \$7,906  |
| Retail and Wholesale Products            | 72,005                       | 83,409    | 6,332                    | 7,215    |
| Total Sales/Operating Income             | \$108,138                    | \$122,258 | 15,758                   | 15,121   |
| Less:                                    |                              |           |                          |          |
| Corporate Expenses                       |                              |           | 8,841                    | 8,144    |
| Interest Expense, net of Interest Income |                              |           | 641                      | 722      |
| Income before Income Taxes               |                              |           | 6,276                    | 6,255    |
| Income Taxes                             |                              |           | (1,820 )                 | (1,637 ) |
| Net Income                               |                              |           | \$4,456                  | \$4,618  |

|  | Three Months Ended January 31, |      |                          |      |
|--|--------------------------------|------|--------------------------|------|
|  | Net Sales<br>2010              | 2009 | Operating Income<br>2010 | 2009 |
|  | (in thousands)                 |      |                          |      |

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|  |           |           |          |          |
|--|-----------|-----------|----------|----------|
| Business to Business Products            | \$ 18,563 | \$ 18,204 | \$ 4,917 | \$ 3,480 |
| Retail and Wholesale Products            | 36,171    | 40,926    | 3,116    | 4,053    |
| Total Sales/Operating Income             | \$ 54,734 | \$ 59,130 | 8,033    | 7,533    |
| Less:                                    |           |           |          |          |
| Corporate Expenses                       |           |           | 4,505    | 3,973    |
| Interest Expense, net of Interest Income |           |           | 307      | 382      |
| Income before Income Taxes               |           |           | 3,221    | 3,178    |
| Income Taxes                             |           |           | (959 )   | (806 )   |
| Net Income                               |           |           | \$ 2,262 | \$ 2,372 |

## 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.

### Stock Options

Our 1995 Long Term Incentive Plan (the “1995 Plan”) provided for grants of both incentive and non-qualified stock options principally at an option price per share of 100% of the fair market value of our Class A Common Stock or, if no Class A Common Stock is outstanding, our Common Stock (“Stock”) on the date of grant. Stock options were generally granted with a five-year vesting period and a 10-year term. The stock options generally vest 25% two years after the grant date and 25% in each of the three following anniversaries of the grant date. This plan expired for purposes of issuing new grants on August 5, 2005. All stock issued from option exercises under this plan was from authorized but unissued stock. All restricted stock issued was from treasury stock.

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan (“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 non-employee 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. Option grants covering 25,000 shares have been issued to our outside directors with a vesting period of one year and option grants covering 32,500 shares have been issued to employees with vesting similar to the vesting described above under the 1995 Plan. In addition, 95,182 restricted shares have been issued under the 2006 Plan.

The Oil-Dri Corporation of America Outside Director Stock Plan (the “Directors’ Plan”) provides for grants of stock options to our directors, who are considered employees, at an option price per share of 100% of the fair market value of Common Stock on the date of grant. Stock options have been granted to our directors for a 10-year term with a one year vesting period. There are 56,250 stock options outstanding as of January 31, 2010 and no stock options available for future grants under this plan. All stock issued under this plan were from treasury stock.

Our Board announced a five-for-four stock split on June 6, 2006. The equitable adjustment of outstanding options to reflect a change in capitalization (such as a stock split) may require the recognition of incremental compensation expense if the adjustment is not determined to have been required by the actual terms of the equity incentive plan. In keeping with historical practices, we adjusted the number of shares and the option prices to equitably adjust all outstanding stock options; however, the Directors’ Plan and the 1995 Plan may be deemed to have been discretionary, rather than required by the actual terms of these plans. We therefore recognized additional stock-based compensation expense as a result of the modification in the second quarter and the first six months of fiscal 2009 of approximately \$9,000 and \$61,000, respectively. As of the end of fiscal 2009, all additional compensation expense had been recognized; therefore, no additional expense has been recognized in fiscal 2010.

There were no stock options granted in the first six months of fiscal years 2010 or 2009.

Changes in our stock options during the first six months of fiscal 2010 were as follows:

| Number of<br>Shares (in<br>thousands) | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value<br>(in thousands) |
|---------------------------------------|---------------------------------------|---|--|
|---------------------------------------|---------------------------------------|---|--|

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|                                       |       |    | (Years) |          |
|---------------------------------------|-------|----|---------|----------|
| Options outstanding, July 31, 2009    | 505   | \$ | 9.14    | \$ 3,426 |
| Exercised                             | (44 ) | \$ | 7.92    | \$ 342   |
| Canceled                              | (2 )  | \$ | 11.65   | \$ 8     |
| Options outstanding, January 31, 2010 | 459   | \$ | 9.25    | 3.5      |
| Options exercisable, January 31, 2010 | 446   | \$ | 9.03    | 3.4      |
|                                       |       | \$ |         | \$ 3,067 |
|                                       |       | \$ |         | \$ 3,064 |

The amount of cash received from the exercise of stock options during the second quarter of fiscal 2010 was \$296,000 and the related tax benefit was \$93,000. The amount of cash received from the exercise of stock options during the second quarter of fiscal 2009 was \$209,000 and the related tax benefit was \$110,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2010 was \$350,000 and the related tax benefit was \$99,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2009 was \$343,000 and the related tax benefit was \$173,000.

#### Restricted Stock

Our 1995 Plan and 2006 Plan both provide for grants of restricted stock. The vesting schedule under the 1995 Plan has varied, but has generally been three years or less. Grants issued under the 2006 Plan to date have vesting periods between two and five years.

Under the 2006 Plan, 5,182 restricted shares of Class B Stock were granted in the first six months of fiscal 2010. No shares of restricted stock were granted in the first six months of fiscal 2009.

Included in our stock-based compensation expense in the second quarter of fiscal years 2010 and 2009 was \$79,000 and \$73,000, respectively, related to unvested restricted stock. In the first six months of fiscal years 2010 and 2009, the expense related to the unvested restricted stock was \$151,000 and \$148,000, respectively.

Changes in our restricted stock outstanding during the first six months of fiscal 2010 were as follows:

|  | (shares in thousands) |   |
|--|-----------------------|---|
|  | Restricted<br>Shares  | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Unvested restricted stock at<br>July 31, 2009    | 35                    | \$ 15.37  |
| Vested   | (17 )                 |   |
| Granted  | 5                     |   |
| Unvested restricted stock at<br>January 31, 2010 | 23                    | \$ 15.31  |

## 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 year ended July 31, 2009. 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, 2009.

### OVERVIEW

We develop, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other sorbent materials. Our principal products include cat litter, industrial and automotive absorbents, bleaching clay and clarification aids, agricultural chemical carriers, animal health and nutrition 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 customer 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 segments, the Retail and Wholesale Products Group and the Business to Business Products Group, as described in Note 7 of the unaudited condensed consolidated financial statements.

### RESULTS OF OPERATIONS

#### SIX MONTHS ENDED JANUARY 31, 2010 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2009

Consolidated net sales for the six months ended January 31, 2010 were \$108,138,000, a decrease of 12% from net sales of \$122,258,000 in the first six months of fiscal 2009. Net income for the first six months of fiscal 2010 was \$4,456,000, a decrease of 4% from net income of \$4,618,000 in the first six months of fiscal 2009. Diluted net income per share for the first six months of fiscal 2010 was \$0.61 compared to \$0.64 for the first six months of fiscal 2009.

Net income for the first six months of fiscal 2010 was negatively affected by decreased tons sold; however, the impact of the decrease was partially offset by lower costs that had a significant positive impact on our results. Lower costs for freight, materials and packaging partially offset the decrease in net sales. Material costs decreased due primarily to the lower cost of fuel used to dry our clay-based products and to transport raw materials. Freight costs declined due primarily to lower diesel fuel prices, which impacted our truck, rail and ship distribution channels. Packaging costs declined due to price decreases in the resin and paper markets. The Business to Business Products Group experienced improved operating income as lower costs and a greater proportion of sales of higher margin products outweighed the reduced tons sold; however, in the Retail and Wholesale Products Group the decline in tons sold prevailed over lower costs.

#### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal 2010 were \$36,133,000, a decrease of \$2,716,000, or 7%, from net sales of \$38,849,000 in the first six months of fiscal 2009. The decrease was primarily attributed to a 9% decrease in tons sold for the Group; however, increased sales of higher priced products



partially offset the decline in tons sold. Net sales and tons sold were down for all product lines, except for bleaching earth and fluid purification products. Our co-packaged traditional coarse cat litter net sales decreased 18% with 7% fewer tons sold in the first six months of fiscal 2010 compared to the first six months of fiscal 2009. Net sales were adversely affected by a lower net selling price under the terms of the agreement with our co-packaging partner and the loss of a small co-packaging customer during the later part of fiscal 2009. Net sales of agricultural chemical carriers decreased 18% and tons sold decreased 20% compared to the first six months of 2009 due primarily to the downturn in the agricultural market. Net sales of our flowability aid product were down 20% compared to the first six months of 2009. The demand was lower for flowability aid products used in animal feed due to price competition, including with respect to freight charges, and due to the naturally varying level of protein in the soybean crop, which is a determining factor in feed formulations. Net sales of animal health and nutrition products decreased 5% in the first six months of fiscal 2010. Net sales of our traditional animal health and nutrition products declined as sales efforts focused on our mycotoxin binding products outside the United States, which were introduced during fiscal 2009. Net sales of bleaching earth and fluid purification products increased 8% in the first six months of fiscal 2010 due to 5% more tons sold. Sales in export markets improved as lower freight costs and a weaker U.S. dollar relative to certain foreign currencies made our products more competitive in the global marketplace. Some export markets also experienced a decline in the quality of soybean oil that resulted in increased demand for our bleaching earth products. In addition, sales of our products used in the biodiesel industry and in palm oil processing increased compared to the first six months of fiscal 2009. Baseball-related sports products sales were slightly higher than in the first six months of fiscal 2009. We had no golf-related sports products sales in the first six months of fiscal 2010 due to the loss of the distributor in fiscal 2009.

The Business to Business Products Group's segment operating income for the first six months of fiscal 2010 was \$9,426,000, an increase of \$1,520,000, or 19%, from operating income of \$7,906,000 in the first six months of fiscal 2009. This increase was due primarily to an approximately 10% decrease in combined freight, materials and packaging costs. Freight costs decreased approximately 15% due primarily to lower diesel fuel prices and export freight costs. Packaging costs decreased approximately 11% due to lower prices for resin and paper used in packaging. Material costs were impacted by lower energy-related costs in our mining and manufacturing processes which contributed to an approximately 7% decrease in material costs. Operating income was also positively impacted by a greater proportion of sales for higher margin products. Selling, general and administrative expenses for the Group were up 7% due to increased personnel, market research and promotion costs associated with our upcoming launch of a new agricultural engineered granule product, as well as with investigation of potential new markets for existing products.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first six months of fiscal 2010 were \$72,005,000, a decrease of \$11,404,000, or 14%, from net sales of \$83,409,000 reported in the first six months of fiscal 2009. The net sales decline was driven by decreases in both average net selling prices and tons sold. The Group's total tons sold were down 10% compared to the first six months of fiscal 2009. Cat litter net sales were down approximately 19% compared to the first six months of fiscal 2009 due primarily to 12% lower tons sold. The average net selling price for cat litter also declined in part due to increased trade spending for product promotions, which were deducted from net sales. As discussed in our Form 10-K for the fiscal year ended July 31, 2009, Wal-Mart Stores, Inc. ("Wal-Mart") began to carry a reduced number of cat litter brands in August 2009. The impact of this decision is reflected in the sales decline of both our branded and private label cat litter. In a recent development, Wal-Mart notified us that they are reinstating our branded scoopable litter in a limited number of stores; however, the new store count remains materially reduced from the store count at the end of fiscal 2009. Net sales of branded cat litter decreased 31% compared to the first six months of fiscal 2009 due primarily to 20% fewer tons sold. Customer loyalty to our branded cat litter and increased trade spending drove incremental sales at customers other than Wal-Mart, which partially offset the overall sales decline. Net sales of private label cat litter decreased 7% compared to the first six months of fiscal 2009 due to 9% fewer tons sold. Purchases by several of our larger private label customers declined due to general economic conditions and a continued overall decline in the coarse cat litter category. Industrial absorbents net sales decreased 9% compared to the first six months of fiscal 2009 with 12% lower volume due primarily to weak economic conditions in the manufacturing and automotive industries.

The Retail and Wholesale Products Group's segment operating income for the first six months of fiscal 2010 was \$6,332,000, a decrease of \$883,000, or 12%, from operating income of \$7,215,000 in the first six months of fiscal 2009. The decrease is attributed to the lower net sales described above that prevailed over a decrease of approximately 6% for the Group's combined freight, materials and packaging costs compared to the first six months of fiscal 2009. Packaging costs decreased approximately 14% due to lower prices for resin and paper used in packaging. Freight costs decreased approximately 8% in the first six months of fiscal 2010 due primarily to lower diesel fuel prices. Material costs were slightly lower compared to the same period in fiscal 2009. Selling, general and administrative expenses for the Group decreased 5% compared to the first six months of fiscal 2009 due primarily to a currency translation loss reported by our foreign operations in the first six months of fiscal 2009 which was not incurred in the first six month of fiscal 2010.

#### CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales for the first six months of fiscal 2010 was 23% compared to 20% in the first six months of fiscal 2009. Gross profit was positively impacted by lower costs for freight, packaging, material, fuel used in our manufacturing processes and increased sales of higher margin products. The cost of fuel was 41% lower in the first six months of fiscal 2010 compared to the first six months of fiscal 2009. We use natural

gas, fuel oil and coal in the manufacturing process to operate kilns that dry our clay. As described in Item 3. Quantitative and Qualitative Disclosures About Market Risk below, we have contracted for a portion of our planned fuel needs for fiscal 2010. Gross profit for the first six months of fiscal 2010 was negatively impacted by a 13% increase in non-fuel manufacturing costs per ton produced, which include depreciation and amortization. This cost increase per ton was driven primarily by 12% fewer tons produced and increased expenditures for employee benefits and repairs. Many of the other non-fuel manufacturing costs were relatively consistent with fiscal 2009 levels, despite the reduced number of tons produced, due to their fixed nature.

Selling, general and administrative expenses as a percentage of net sales for the first six months of fiscal 2010 were 17% compared to 14% in the first six months of fiscal 2009. The discussions of the Groups' operating income above describe the fluctuation 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 2010 included a higher estimated annual incentive plan bonus accrual. The higher incentive bonus expense was based on performance targets that are established for each fiscal year. The higher bonus expense was partially offset by reduced spending for research and development as we moved further through the development cycle for several new products.

Interest expense was \$268,000 less for the first six months of fiscal 2010 compared to the same period in fiscal 2009 due to continued debt reduction and capitalized interest expense for a new product-related capital project. Interest income was \$187,000 lower in the first six months of fiscal 2010 due to a lower average interest rate and a lower average investment balance.

Our effective tax rate was 29% of pre-tax income for the first six months of fiscal 2010, which is comparable to the 28% effective tax rate for the full year of fiscal 2009. The effective tax rate for fiscal 2010 is based on the projected composition and level of our taxable income for the year. The percentage of income attributable to higher margin Business to Business Group products is expected to be greater in fiscal 2010 compared to fiscal 2009.

Total assets increased \$4,605,000, or 3%, during the first six months of fiscal 2010. Current assets increased \$4,316,000, or 6%, from fiscal 2009 year end balances due primarily to increased cash and cash equivalents and prepaid expenses. These increases were partially offset by decreases in investment in securities, accounts receivable, inventories and prepaid repairs expense. The changes in current assets are described below in Liquidity and Capital Resources. Property, plant and equipment, net of accumulated depreciation, increased \$885,000 during the first six months of fiscal 2010 due to additions in excess of depreciation expense. Additions were primarily for land, replacement of machinery and other capital projects at our manufacturing facilities. During the second quarter of fiscal 2010, we acquired approximately 800 acres of land for approximately \$2,300,000 near our Georgia production plant, which we believe contain deposits of high quality mineral reserves. Other noncurrent assets decreased \$596,000 from fiscal 2009 year end balances due to payments received on a lease receivable related to a co-packaging agreement, lower deferred income taxes and amortization of other assets.

Total liabilities increased \$1,921,000, or 3%, during the first six months of fiscal 2010. Current liabilities increased \$2,232,000, or 9%, from fiscal 2009 year end balances due primarily to increased current maturities of notes payable, accrued freight, accrued trade promotions and other accrued expenses. Lower accrued salaries partially offset these increases. The changes in current liabilities are described below in Liquidity and Capital Resources. Noncurrent liabilities decreased \$311,000, or 1%, from fiscal 2009 year end balances due to the reclassification of notes payable from noncurrent to current that was partially offset by higher accruals for pension and postretirement benefits and deferred compensation. The accrued pension and postretirement benefit liability was based on the most recent actuarial estimates. The increase in the deferred compensation liability was due to ongoing deferrals and accrued interest in excess of payouts.

The results of operations for the first six months of fiscal 2010 included an increase in cost of sales of approximately \$400,000 related to an overstatement of supplies inventory at one of our manufacturing facilities as of July 31, 2009. The overstatement of inventory had accumulated over a number of years, and was the result of alleged theft. This increase was offset by the expected receipt of insurance proceeds related to the supplies inventory overstatement; a receivable for which was recorded in the first quarter of fiscal 2010. The net effect of the two adjustments resulted in no impact to net income. We have determined that the adjustment to supplies inventory was not material to the first six months of fiscal 2010 or to any previously reported period.

THREE MONTHS ENDED JANUARY 31, 2010 COMPARED TO THREE MONTHS ENDED JANUARY, 2009

Consolidated net sales for the three months ended January 31, 2010 were \$54,734,000, a decrease of 7% from net sales of \$59,130,000 in the second quarter of fiscal 2009. Net income for the second quarter fiscal 2010 was \$2,262,000, a decrease of 5% from net income of \$2,372,000 in the second quarter of fiscal 2009. Diluted net income per share for the second quarter of fiscal 2010 was \$0.31 compared to \$0.33 for the second quarter of fiscal 2009.

Net income for the second quarter of fiscal 2010 was negatively affected by decreased tons sold; however, the impact of the decrease was partially offset by lower costs that had a significant positive impact on the quarter's results. Material costs decreased due primarily to the lower cost of fuel used to dry our clay-based products and to transport raw materials. Freight costs declined due primarily to lower diesel fuel prices, which impacted our truck, rail and ship distribution channels. Packaging costs declined primarily due to price decreases in the resin and paper markets. The Business to Business Products Group's operating income improved due to lower costs and a greater proportion of sales from higher margin products which outweighed the reduced tons sold; however, in the Retail and Wholesale Products Group, the decline in tons sold prevailed over lower costs.

## BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal 2010 were \$18,563,000, an increase of \$359,000, or 2%, from net sales of \$18,204,000 in the second quarter of fiscal 2009. The Group benefited from a greater proportion of sales from higher priced products that offset a 1% decline in tons sold. Net sales and tons sold were up for bleaching earth and fluid purification products, but were down for most other product categories in this Group. Net sales of bleaching earth and fluid purification products increased 28% with approximately 27% more tons sold in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. Lower freight costs and a weaker U.S. dollar relative to certain foreign currencies made our products more competitive in the global marketplace, which resulted in improved export sales. Some export markets also experienced increased demand for our bleaching earth products due to a decline in the quality of soybean oil. In addition, sales also increased for bleaching earth and fluid purification products used in the biodiesel industry and in palm oil processing. Baseball-related sports products sales were also slightly higher compared to the second quarter of fiscal 2009. Our co-packaged traditional coarse cat litter net sales decreased 12% with 1% fewer tons sold compared to the second quarter of fiscal 2009. Net sales were adversely affected by a lower net selling price under the terms of the agreement with our co-packaging partner and the loss of a small co-packaging customer during the later part of fiscal 2009. Net sales of agricultural chemical carriers decreased 17% and tons sold decreased 22% compared to the second quarter of fiscal 2009 due primarily to the downturn in the agricultural market. Net sales of our flowability aid product were also down 13% compared to the second quarter of fiscal 2009. The demand was lower for flowability aid products used in animal feed due to price competition, including with respect to freight charges, and due to the naturally varying level of protein in the soybean crop, which is a determining factor in feed formulations. Animal health and nutrition products net sales decreased 10% compared to the second quarter of fiscal 2009. Net sales of our traditional animal health and nutrition products declined as sales efforts focused on our mycotoxin binding products outside the United States, which were introduced during fiscal 2009. Increased sales of mycotoxin binding products partially offset this decline.

The Business to Business Products Group's segment operating income for the second quarter of fiscal 2010 was \$4,917,000, an increase of \$1,437,000, or 41%, from operating income of \$3,480,000 in the second quarter of fiscal 2009. This increase was due primarily to an approximately 9% decrease in combined freight, materials and packaging costs. Freight costs decreased approximately 9% due primarily to lower diesel fuel prices. Packaging costs decreased approximately 4% due primarily to lower prices for paper used in packaging. Material costs were impacted by lower energy-related costs in our mining and manufacturing processes, which contributed to an approximately 10% decrease in material costs. Selling, general and administrative expenses for the Group were up 10% compared to the second quarter of fiscal 2009 due to increased personnel, market research, and promotion costs associated with our upcoming launch of a new agricultural engineered granule product, as well as with investigation of potential new markets for existing products.

## RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the second quarter of fiscal 2010 were \$36,171,000, a decrease of \$4,755,000 from net sales of \$40,926,000 in the second quarter of fiscal 2009. The net sales decline was driven by decreases in both average net selling prices and tons sold. The Group's total tons sold were down 9% compared to the second quarter of fiscal 2009. Cat litter net sales were down approximately 17% compared to the second quarter of fiscal 2009 due primarily to 11% lower tons sold. The average net selling price declined in part due to increased trade spending for product promotions, which are deducted from net sales. As discussed in our Form 10-K for the fiscal year ended July 31, 2009, Wal-Mart began to carry a reduced number of cat litter brands in August 2009. The impact of this decision is reflected in the sales decline of both our branded and private label cat litter. In a recent development, Wal-Mart notified us that they are reinstating our branded scoopable litter in a limited number of stores; however, the new store count remains materially reduced from the store count at the end of fiscal 2009. Net

sales of branded cat litter decreased 29% compared to the second quarter of fiscal 2009 due primarily to 22% fewer tons sold. Customer loyalty to our branded cat litter and increased trade spending drove incremental sales at customers other than Wal-Mart, which partially offset the overall sales decline. Net sales of private label cat litter decreased 5% in the second quarter of fiscal 2010 due to 6% fewer tons sold. Purchases by several of our larger private label customers declined due to general economic condition and a continued overall decline in the coarse cat litter category. Industrial absorbents net sales decreased 6% compared to the second quarter of fiscal 2009 with 10% lower volume due primarily to weak economic conditions in the manufacturing and automotive industries.

The Retail and Wholesale Products Group's segment operating income for the second quarter of fiscal 2010 was \$3,116,000, a decrease of \$937,000, or 23%, from operating income of \$4,053,000 in the second quarter of fiscal 2009. The Group's combined freight, materials and packaging costs decreased approximately 1% from the second quarter of fiscal 2009. Freight costs were down approximately 1% due primarily to lower diesel fuel prices. Packaging costs decreased approximately 15% due primarily to lower prices for resin and paper used in packaging. Material costs increased 2% as the benefit of lower energy-related costs in our mining and manufacturing processes was offset by the negative cost impact of lower tons produced at some of our manufacturing facilities. Selling, general and administrative expenses for the Group were 1% higher compared to the second quarter of fiscal 2009.

## CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales for the second quarter of fiscal 2010 was 23% compared to 20% in the second quarter of fiscal 2009. Gross profit was positively impacted by lower costs for freight, packaging, material and fuel used in our manufacturing processes. The cost of fuel was 37% lower in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. We use natural gas, fuel oil and coal in the manufacturing process to operate kilns that dry our clay. As described in Item 3. Quantitative and Qualitative Disclosures About Market Risk below, we have contracted for a portion of our planned fuel needs for fiscal 2010. Gross profit for the second quarter of fiscal 2010 was negatively impacted by a 14% increase in non-fuel manufacturing cost per ton produced, which includes depreciation and amortization. This cost increase per ton was driven primarily by 7% fewer tons produced and increased expenditures for benefits and repairs. Many of the other non-fuel manufacturing costs were relatively consistent with the second quarter of fiscal 2009 levels, despite the reduced number of tons produced, due to their fixed nature.

Selling, general and administrative expenses as a percentage of net sales for the second quarter of fiscal 2010 were 17% compared to 14% in the second quarter of fiscal 2009. The discussions of the Groups' operating income above describe the fluctuation in the selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in the second quarter of fiscal 2010 included a higher estimated annual incentive plan bonus accrual. The higher incentive bonus expense was based on performance targets that are established for each fiscal year. The higher bonus expense was partially offset by reduced spending for research and development as we moved further through the development cycle for several new products.

Interest expense was \$137,000 less for the second quarter of fiscal 2010 compared to the same period in fiscal 2009 due to continued debt reduction and capitalized interest expense for a new product-related capital project. Interest income was \$62,000 lower in the second quarter of fiscal 2010 due to a lower average interest rate.

Our effective tax rate was 30% of pre-tax income in the second quarter of fiscal 2010, which brought our tax rate for the first six months of fiscal 2010 to 29%. The effective tax rate for fiscal 2010 is based on the projected composition and level of our taxable income for the year and is comparable to the 28% effective tax rate for the full year of fiscal 2009. The percentage of income attributable to higher margin Business to Business Group products is expected to be greater in fiscal 2010 compared to fiscal 2009.

## FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the first six months of fiscal 2010 were \$7,462,000, an increase of 5% from net sales of \$7,089,000 during the first six months of fiscal 2009. Net sales by our foreign subsidiaries represented 7% of our consolidated net sales during the first six months of fiscal 2010 and 6% of our consolidated net sales during the first six months of fiscal 2009. Net sales of our Canadian subsidiary increased due to higher sales of both industrial products and cat litter, including sales to a new customer. In addition, the Canadian Dollar was about 8% stronger on average against the U.S. Dollar for the first six months of fiscal 2010 compared to the first six months of fiscal 2009, which resulted in higher sales values after translation to U.S. Dollars. Net sales of industrial absorbents by our United Kingdom subsidiary were down due primarily to the continued slump in the manufacturing industry in its principal market.

For the first six months of fiscal 2010, our foreign subsidiaries reported net income of \$168,000, an increase of \$601,000 from the \$433,000 net loss reported in the first six months of fiscal 2009. The increase in net income was due in part to the higher sales for our Canadian subsidiary, which more than offset the sales decline of our United Kingdom subsidiary. In addition, the currency translation loss reported by our foreign operations in the first six months of fiscal 2010 was significantly less than the loss reported in fiscal 2009. The British Pound declined



significantly in value compared to the U.S. Dollar during the first six months of fiscal 2009, which resulted in a substantial currency translation loss; however, the average exchange rate for the British Pound for the first six months of fiscal 2010 was approximately the same as compared to the first six months of fiscal 2009.

Identifiable assets of our foreign subsidiaries as of January 31, 2010 were \$8,997,000 compared to \$9,103,000 as of January 31, 2009. The decrease is primarily due to lower accounts receivable and inventories that were partially offset by higher cash and cash equivalents.

Net sales by our foreign subsidiaries during the second quarter of fiscal 2010 were \$3,645,000, an increase of 13% from net sales of \$3,219,000 during the second quarter of fiscal 2009. Net sales by our foreign subsidiaries represented 7% of our consolidated net sales during the second quarter of fiscal 2010 and 5% of our consolidated net sales during the second quarter of fiscal 2009. Net sales of our Canadian subsidiary increased due to higher sales of both industrial products cat litter, including sales to a new customer. Net sales of industrial absorbents by our United Kingdom subsidiary were down due primarily to the continued slump in the manufacturing industry in its principal market.

For the second quarter of fiscal 2010, our foreign subsidiaries reported a net loss of \$132,000, an increase of \$122,000 from the \$254,000 net loss reported in the second quarter of fiscal 2009. The increase in net income was due in part to the higher sales for our Canadian subsidiary, which more than offset the sales decline in our United Kingdom subsidiary. In addition, in the second quarter of fiscal 2010 we did not incur a significant currency translation loss that was reported by our foreign operations in the second quarter of fiscal 2009. Compared to the U.S. Dollar, the average value of the Canadian Dollar was about 14% higher and the average value of the British Pound was about 10% higher in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, the purchasing and upgrading of real estate, equipment and facilities, funding new product development and investing in infrastructure and potential acquisitions. We principally have used cash generated from operations and, to the extent needed, issuance of debt securities and borrowings under our credit facilities to fund these requirements. Cash and cash equivalents increased \$9,025,000 during the first six months of fiscal 2010 to \$20,864,000 at January 31, 2010.

The following table sets forth certain elements of our unaudited condensed consolidated statements of cash flows (in thousands):

|  | Six Months Ended |                  |
|--|------------------|------------------|
|  | January 31, 2010 | January 31, 2009 |
| Net cash provided by operating activities                    | \$ 13,763        | \$ 1,946         |
| Net cash used in investing activities                        | (2,476 )         | (1,215 )         |
| Net cash used in financing activities                        | (2,266 )         | (6,405 )         |
| Effect of exchange rate changes on cash and cash equivalents | 4                | 1,098            |
| Net increase (decrease) in cash and cash equivalents         | \$ 9,025         | \$ (4,576 )      |

Net cash provided by (used in) operating activities

Net cash provided by operations was \$13,763,000 for the first six months of fiscal 2010, compared to \$1,946,000 for the first six months of fiscal 2009. The increase was due primarily to changes in working capital that offset lower net income. For the first six months of fiscal years 2010 and 2009, the primary components of working capital that impacted operating cash flows were as follows:

Accounts receivable, less allowance for doubtful accounts, decreased \$1,790,000 in the first six months of fiscal 2010 due to lower sales in the second quarter of fiscal 2010 compared to sales in the fourth quarter of fiscal 2009. Accounts receivable, less allowance for doubtful accounts, increased \$16,000 in the first six months of fiscal 2009. Net sales in the second quarter of fiscal 2009 were slightly lower than net sales in the fourth quarter of fiscal 2008. The change in both periods is also subject to timing of sales and collections and the payment terms provided to various customers. The quality of our accounts receivable in terms of aging and days sales outstanding has improved as of January 31, 2010 compared to January 31, 2009.

Inventories decreased \$810,000 in the first six months of fiscal 2010 compared to an increase of \$1,491,000 in the same period in fiscal 2009. Packaging inventories decreased in the first six months of fiscal 2010 primarily due to lower sales requirements and lower costs. Supplies inventories decreased due to the adjustment of an overstatement described in Note 2 of the notes to the consolidated financial statements. In the first six months of fiscal 2009, finished goods and packaging inventories increased due primarily to higher costs and increased tons in inventory to cover downtime for planned maintenance.

Other liabilities increased \$893,000 in the first six months of fiscal 2010 compared to an increase of \$914,000 in the same period of fiscal 2009. Accruals for postretirement benefits increased during the first six months of both fiscal years. The change in other liabilities also included the effect of currency exchange rate fluctuations on the liabilities of our foreign subsidiaries. The fluctuation in the relative value of the U.S. Dollar to both the British Pound and the Canadian Dollar was less for the first six months of fiscal 2010 compared to the same period of fiscal 2009.

Accrued expenses increased \$783,000 in the first six months of fiscal 2010 compared to a decrease of \$2,784,000 in the first six months of fiscal 2009. Accrued expenses included the discretionary bonus accrual. The bonus accrual net changed in both years by the payout of the prior fiscal year's bonus accrual less the current fiscal year's first six month bonus accrual. The net decrease in the first six months of fiscal 2009 was significantly greater than in the first six months of fiscal 2010 due to a higher payout and a lower accrual. Accrued freight and other accrued expenses increased in the first six months of fiscal 2010 compared to a decrease in the first six months of fiscal 2009 due primarily to the timing of payments.

Deferred compensation increased \$388,000 in the first six months of fiscal 2010 compared to an increase of \$119,000 in the first six months of fiscal 2009. The increase in both years is due to continued employee deferrals and interest on accumulated deferred compensation balances in excess of payouts.

Other assets decreased \$329,000 in the first six months of fiscal 2010 compared to an increase of \$1,321,000 in the first six months of fiscal 2009. The change in other assets included the effect of currency exchange rate fluctuations on non-cash assets held by our foreign subsidiaries. The change in the relative value of the U.S. Dollar to both the British Pound and the Canadian Dollar was significantly less for the first six months of fiscal 2010 compared to the same period of fiscal 2009.

Accounts payable increased \$285,000 in the first six months of fiscal 2010 compared to a decrease of \$972,000 in the same period in fiscal 2009. Both years were subject to normal fluctuations in the timing of payments.

Prepaid expenses decreased \$109,000 in the first six months of fiscal 2010 compared to an increase of \$803,000 in the first six months of fiscal 2009. Prepaid repair expense decreased in the first six months of fiscal 2010 compared to an increase in the first six months of fiscal 2009 due to the timing of repairs and the implementation of a new process during fiscal 2009 to manage spare parts inventory. The timing of insurance premium payments also resulted in an increase in prepaid expenses in both years.

#### Net cash used in investing activities

Cash used in investing activities was \$2,813,000 in the first six months of fiscal 2010 compared to \$1,215,000 in the first six months of fiscal 2009. Cash used for capital expenditures of \$4,818,000 in the first six months of fiscal 2010 included approximately \$2,300,000 to purchase approximately 800 acres of land purchased near our Georgia production plant, which we believe contain deposits of high quality mineral reserves. Capital expenditures of \$7,757,000 in the same period of fiscal 2009 included capital projects related to new product development at our manufacturing facilities. In the first six months of fiscal 2010, net cash provided by dispositions of investment securities was \$2,005,000 compared to \$6,531,000 in the first six months of fiscal 2009. In the first six months of fiscal 2009, more cash was needed to fund capital expenditures and payments on long-term debt compared to the first six months of fiscal 2010. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. In addition, in the first six months of fiscal 2010 we received \$337,000 from the sale of land and buildings at our United Kingdom subsidiary.

#### Net cash used in financing activities

Cash used in financing activities was \$2,266,000 in the first six months of fiscal 2010 compared to \$6,405,000 in the first six months of fiscal 2009. Cash used for payment of long-term debt in the first six months of fiscal 2010 was \$3,880,000 less than in the first six months of fiscal 2009. In addition, \$111,000 less cash was used to purchase treasury stock in the first six months of fiscal 2010 compared to the same period in fiscal 2009. Conversely, cash used for dividend payments were \$153,000 higher in the first six months of fiscal 2010 due to a dividend increase.

Other

Total cash and investment balances held by our foreign subsidiaries at January 31, 2010 and 2009 were \$1,490,000 and \$1,262,000, respectively. Our foreign subsidiaries' cash and investment balances increased during fiscal 2010 as a result of increased profitability.

As part of our normal course of business, we guarantee certain debts and trade payables of our wholly owned subsidiaries. These arrangements are made at the request of the subsidiaries' creditors because separate financial statements are not distributed for the wholly owned subsidiaries. As of January 31, 2010, the value of these guarantees was \$257,000 of lease liabilities.

Our \$15,000,000 unsecured revolving credit agreement with Harris N.A. ("Harris") is effective until December 31, 2011. The credit agreement provides that we may select a variable rate based on either 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 Harris. At January 31, 2010, the variable rates would have been 3.25% for the Harris' prime-based rate or 1.23% for the LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions (including a limitation on capital expenditures), 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. As of January 31, 2010 and 2009, there were no outstanding borrowings under this credit facility and we were in compliance with its covenants.

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 and debt service obligations for at least the next 12 months. We expect cash requirements for capital expenditures in fiscal 2010 to decrease from fiscal 2009 due primarily to completion of certain capital projects at our manufacturing facilities. 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, 2010 for the time frames indicated.

#### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations            | Total        | Payments Due by Period |              |              |               |
|------------------------------------|--------------|------------------------|--------------|--------------|---------------|
|                                    |              | Less Than 1 Year       | 1 – 3 Years  | 4 – 5 Years  | After 5 Years |
| Long-Term Debt                     | \$21,300,000 | \$4,500,000            | \$7,900,000  | \$8,500,000  | \$400,000     |
| Interest on Long-Term Debt         | 3,624,000    | 1,209,000              | 1,676,000    | 715,000      | 24,000        |
| Capital Leases                     | 106,000      | 49,000                 | 57,000       |              |               |
| Operating Leases                   | 12,927,000   | 2,710,000              | 3,514,000    | 2,463,000    | 4,240,000     |
| Unconditional Purchase Obligations | 3,553,000    | 2,874,000              | 679,000      | --           | --            |
| Total Contractual Cash Obligations | \$41,510,000 | \$11,342,000           | \$13,826,000 | \$11,678,000 | \$4,664,000   |

We plan to make a contribution to our defined benefit pension plan in fiscal 2010 of approximately \$900,000. We have not presented this obligation 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.

As of January 31, 2010, our non-current liability for uncertain tax positions was approximately \$200,000. We have not presented this obligation in the table above because the timing of future cash flows is dependent on examinations

by taxing authorities and can not reasonably be estimated.

The unconditional purchase obligations include forward purchase contracts we have entered into for a portion of our natural gas fuel needs for fiscal 2010 and 2011. As of January 31, 2009, the remaining purchase obligation for fiscal 2010 was \$2,189,000 for 290,000 MMBtu and for fiscal 2011 was \$1,364,000 for 160,000 MMBtu. These contracts were entered into in the normal course of business and no contracts were entered into for speculative purposes.

|                              | Amount of Commitment Expiration Per Period |                     |             |             |                  |
|------------------------------|--|---------------------|-------------|-------------|------------------|
|                              | Total                                      | Less Than 1<br>Year | 1 – 3 Years | 4 – 5 Years | After 5<br>Years |
| Other Commercial Commitments | \$27,800,000                               | \$21,389,000        | \$5,631,000 | \$780,000   | \$--             |

The other commercial commitments 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 of 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 conformity with accounting principles generally accepted in the United States. 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 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, 2009 filed with the Securities and Exchange Commission, which is incorporated by reference in this Form 10-Q.

### Recently Adopted Accounting Standards

For this Quarterly Report on Form 10-Q for the quarter ending January 31, 2010 we adopted the FASB guidance issued in February 2010 under ASC 855-10 Subsequent Events. This guidance amended several definitions and removed the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. The adoption of this guidance resulted in revised disclosures and had no impact on our consolidated financial statements.

### Recently Issued Accounting Standards

In December 2008, the FASB issued guidance under ASC 715-20 Compensation – Retirement Benefits that will require expanded disclosure for employers' pension and other postretirement benefit plan assets fair value measurements, investment policies and strategies for the major categories of plan assets and significant concentrations of risk within plan assets. The adoption of the guidance will result in enhanced disclosures in our fiscal 2010 Annual Report on Form 10-K, but will have no impact on our consolidated financial statements.

In January 2010, the FASB issued guidance under ASC 820-10 Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements that will require new disclosures and provides clarification of existing disclosures about fair value measurements. Adoption of certain provisions related to the reconciliation of changes in fair value measurements using significant unobservable inputs will result in enhanced disclosures in our Quarterly Report on Form 10-Q for the quarter ending October 31, 2010. Other provisions of this guidance will require enhanced disclosures for fair value measurements in our Quarterly Report on Form 10-Q for the quarter ending April 30, 2010. Adoption of this guidance in either period affects disclosures only and will have no impact 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 had two interest rate swap agreements as of January 31, 2010. We believe that the market risk arising from holding these 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 our foreign operations. Foreign currency denominated accounts receivable is a small fraction of our consolidated accounts receivable. 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. We do not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates. We believe that the foreign currency fluctuation risk is not material to our consolidated financial statements.

We are exposed to market risk at it relates to the investments that make up our 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. The decline in the equity markets resulted in a lower value of our pension plan assets as of July 31, 2009. The lower asset value increased our expense for fiscal 2010 and may increase the amount and accelerate the timing 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 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. We have contracted for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. As of January 31, 2010, we have purchased natural gas contracts representing approximately 45% of our planned kiln fuel needs for fiscal 2010. We estimate the weighted average cost of these natural gas contracts in fiscal 2010 to be approximately 38% lower than the contracts in fiscal 2009; however, this average will change if we continue to buy natural gas contracts. We have also purchased contracts for a portion of our fuel requirements for fiscal 2011 to take advantage of declines in natural gas prices. All contracts are related to the normal course of business and no contracts are entered into for speculative purposes.

The tables below provide information about our natural gas purchase contracts, which are sensitive to changes in commodity prices, specifically natural gas prices. For the purchase contracts outstanding at January 31, 2010, the table presents the notional amounts in MMBtu's, the weighted average contract prices, and the total dollar contract amount, which will mature by July 31 of 2010 and 2011. The Fair Value was determined using the "Most Recent Settle" price for the "Henry Hub Natural Gas" option contract prices as listed by the New York Mercantile Exchange on March 4, 2010.

Commodity Price Sensitivity  
Natural Gas Future Contracts  
For the Six Months Ending July 31, 2010

|   | Expected<br>2010<br>Maturity | Fair Value |
|---|------------------------------|------------|
| Natural Gas Future Volumes (MMBtu)      | 290,000                      | --         |
| Weighted Average Price (Per MMBtu)      | \$ 7.55                      | --         |
| Contract Amount (\$ U.S., in thousands) | \$ 2,189.0                   | \$ 1,406.1 |

Commodity Price Sensitivity  
Natural Gas Future Contracts  
For the Year Ending July 31, 2011

|                                    | Expected<br>2011<br>Maturity | Fair Value |
|------------------------------------|------------------------------|------------|
| Natural Gas Future Volumes (MMBtu) | 160,000                      | --         |
|                                    | \$ 8.53                      | --         |

Weighted Average Price  
(Per MMBtu)

|  |            |          |
|--|------------|----------|
| Contract Amount (\$ U.S.,<br>in thousands) | \$ 1,364.4 | \$ 862.8 |
|--|------------|----------|

Factors that could influence the fair value of the natural gas contracts, include, but are not limited to, the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, and the general demand for natural gas by the manufacturing sector, seasonality and the weather patterns throughout the United States and the world. Some of these same events have allowed us to mitigate the impact of the natural gas contracts by the continued, and in some cases expanded, use of recycled oil in our manufacturing processes. Accurate estimates of the impact that these contracts may have on our financial results are difficult to make due to the inherent uncertainty of future fluctuations in option contract prices in the natural gas options market.

#### 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 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 that occurred during the fiscal quarter ended January 31, 2010 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 error 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, 2010, we did not sell any securities which were not registered under the Securities Act. The following chart summarizes Common Stock repurchases during this period.

ISSUER PURCHASES OF EQUITY SECURITIES<sup>1</sup>

| For the Three Months Ended January 31, 2010 | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that may yet be Purchased Under Plans or Programs <sup>2</sup> |
|---|--------------------------------------|----------------------------------|--|---|
| November 1, 2009 to November 30, 2009       | --                                   | --                               | --   | 272,243   |
| December 1, 2009 to December 31, 2009       | --                                   | --                               | --   | 272,243   |
| January 1, 2010 to January 31, 2010         | 34,000                               | \$15.83                          | 34,000   | 238,243   |

<sup>1</sup> 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, 2009 filed with the Securities and Exchange Commission.

<sup>2</sup> On October 10, 2005, our Board of Directors authorized the repurchase of up to 500,000 shares of Common Stock, with repurchases to be made from time to time in the discretion of our management and in accordance with applicable laws, rules and regulations. This authorization does 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 this authorization. The share numbers were not affected by the five-for-four stock split that occurred on September 8, 2006. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock, and no shares of Class A Common Stock are currently outstanding.



## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 8, 2009, we held our 2009 Annual Meeting of Stockholders for the purpose of considering and voting on two matters, summarized below.

## 1. Election of Directors

The following schedule sets forth the results of the vote to elect eight directors. As of the record date of the meeting, a total of 7,112,985 shares of Common Stock and Class B Stock were eligible to cast a total of 24,352,125 votes. At the meeting, shares representing a total of 22,791,042 votes were present in person or by proxy.

| Director            | Votes For  | Votes Withheld |
|---------------------|------------|----------------|
| J. Steven Cole      | 22,650,671 | 140,371        |
| Arnold W. Donald    | 22,631,269 | 159,773        |
| Daniel S. Jaffee    | 21,726,367 | 1,064,675      |
| Richard M. Jaffee   | 21,708,104 | 1,082,938      |
| Joseph C. Miller    | 21,634,019 | 1,157,023      |
| Michael A. Nemeroff | 21,027,664 | 1,763,378      |
| Allan H. Selig      | 22,632,428 | 158,614        |
| Paul E. Suckow      | 22,659,749 | 131,293        |

## 2. Ratification of Independent Registered Public Accounting Firm

Our Audit Committee's selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2010 was ratified by receiving 22,737,155 votes of a total 22,791,042 eligible votes, with 37,349 votes against and 16,538 votes to abstain.

## ITEM 6. EXHIBITS

## (a) EXHIBITS:

| Exhibit No. | Description  | SEC Document Reference  |
|-------------|--|---|
| 10.1        | Letter Agreement, dated as of January 11, 2010, between Oil-Dri Corporation of America and Brian K. Bancroft.* | Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on January 12, 2010. |
| <u>11</u>   | 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.
- \* Management contract or compensatory plan or arrangement.



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/ Andrew N. Peterson  
Andrew N. Peterson  
Vice President and Chief Financial Officer

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

Dated: March 10, 2010

EXHIBITS

| Exhibit No. | Description   |
|-------------|---|
| 10.11       | Letter Agreement, dated as of January 11, 2010, between Oil-Dri Corporation of America and Brian K. Bancroft.*                    |
| <u>11</u>   | Statement re: Computation of Earnings per Share.  |
| <u>31</u>   | Certifications pursuant to Rule 13a – 14(a).  |
| <u>32</u>   | Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.  |
| *           | Management contract or compensatory plan or arrangement.  |
| 1           | Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on January 12, 2010. |

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 (312) 321-1515 or by e-mail to info@oildri.com.