

OIL DRI CORP OF AMERICA
Form 10-K
October 09, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2015

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

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2048898
(IRS. Employer Identification No.)

410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213

(312) 321-1515

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes No

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

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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:

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a 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

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of January 31, 2015 was \$150,082,000.

Number of shares of each class of Oil-Dri's capital stock outstanding as of September 30, 2015:

Common Stock – 5,028,047 shares

Class B Stock – 2,190,994 shares

Class A Common Stock – 0 shares

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference: Oil-Dri's Proxy Statement for its 2015 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission ("SEC") not later than November 28, 2015 (120 days after the end of Oil-Dri's fiscal year ended July 31, 2015), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including 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 SEC, contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “assume,” 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” below and other documents we file with the SEC. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

TRADEMARK NOTICE

Agsorb, Amlan, Calibrin, Cat’s Pride, ConditionAde, Flo-Fre, Fresh & Light, Jonny Cat, KatKit, Oil-Dri, Pel-Unite, Perform, Pro Mound, Pro’s Choice Sports Field Products, Pure-Flo, Rapid Dry, Select, Terra-Green, Ultra-Clear and Verge are all U.S. registered trademarks of Oil-Dri Corporation of America or of its subsidiaries. Saular is a Canadian registered trademark of Oil-Dri Corporation of America. Fresh & Light Ultimate Care, MD-09 and Snow & Go are trademarks of Oil-Dri Corporation of America. Fresh Step is a registered trademark of The Clorox Company (“Clorox”).

PART I

ITEM 1 – BUSINESS

In 1969, Oil-Dri Corporation of America was incorporated in Delaware as the successor to an Illinois corporation incorporated in 1946; the Illinois corporation was the successor to a partnership that commenced business in 1941. Except as otherwise indicated herein or as the context otherwise requires, references to “Oil-Dri,” the “Company,” “we,” “us” or “our” refer to Oil-Dri Corporation of America and its subsidiaries.

GENERAL BUSINESS DEVELOPMENTS

Fiscal year 2015 provided both opportunities and challenges that resulted in net income growth despite reduced net sales. We benefited from reduced costs for advertising, freight and natural gas throughout the year. Packaging costs also trended lower at year end. Our private label cat litter experienced sales growth as we continued to build our presence in this market after the acquisition of MFM Industries, Inc. (“MFM”) during fiscal year 2014 and with the introduction of a new private label lightweight scoopable product in fiscal 2015. Sales also improved from the prior year for our animal health and nutrition, and agricultural chemical carrier products, while our branded cat litter sales were hindered by intense competition. Foreign sales were also negatively impacted by currency fluctuations and our fluids purification products contended with unfavorable edible oil crop characteristics. We devoted resources at our manufacturing facilities to introduce new branded and private label lightweight scoopable products in the second half of fiscal year 2015, which we believe will position us well in this expanding segment of the cat litter market.

We believe our balance sheet remains strong at the end of fiscal year 2015 with higher cash and cash equivalents, lower inventory and reduced debt. During the year we continued to invest in capital at our plants and to increase dividend payments. Our cash requirements are subject to change as business conditions warrant and opportunities arise.

PRINCIPAL PRODUCTS

We are a leader in developing, manufacturing and/or marketing sorbent products. Our sorbent products are principally produced from clay minerals, primarily consisting of montmorillonite and attapulgite and, to a lesser extent, other clay-like sorbent materials, such as Antelope shale, which we refer to collectively as our “clay” or our “minerals.” Our sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of our absorbent clay products are Cat’s Pride and Jonny Cat branded premium cat litter, as well as other private label cat litters. We also produce Oil-Dri branded floor absorbents, Agsorb and Verge agricultural chemical carriers and ConditionAde and Calibrin enterosorbents used in animal feed. Adsorbent products attract impurities in liquids, such as metals and surfactants, and form low-level chemical bonds. Examples of our adsorbent products are Oil-Dri synthetic sorbents, which are used for industrial cleanup, and Pure-Flo, Perform and Select bleaching clay products, which act as a filtration media for edible oils, fats and tallows. Also, our Ultra-Clear product serves as a purification aid for petroleum-based oils and by-products. Our absorbent and adsorbent products are described in more detail below.

Agricultural and Horticultural Products

We produce a wide range of granular and powdered mineral absorbent products that are used for crop protection chemical carriers, drying agents, bulk processing aids, growing media components and seed enhancement media. Our brands include: Agsorb, an agricultural chemical carrier and drying agent; Verge, an engineered granule agricultural chemical carrier; Flo-Fre, a highly absorbent microgranule flowability aid; Terra-Green, a growing media supplement;

and Pel-Unite, an animal feed binder.

Agsorb and Verge carriers are used as an alternative to agricultural sprays. The clay granules absorb active ingredients and are then delivered directly into, or on top of, the ground providing a more precise application than chemical sprays. Verge carriers are spherical, uniform-sized granules with very low dust. Agsorb drying agent is blended into fertilizer-pesticide blends applied by farmers to absorb moisture and improve flowability. Agsorb also acts as a flowability aid for fertilizers and chemicals used in the lawn and garden market. Flo-Fre microgranules are used by grain processors and other large handlers of bulk products to soak up excess moisture, which prevents caking. We employ technical sales people to market these products in the United States.

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Animal Health and Nutrition Products

We produce, or use contract processors to produce, several products used in the livestock feed industry. Many of these products are sold under the Amlan trademark. Our various Calibrin and ConditionAde products are used in animal feed and each has different attributes that improve animal health and development, such as adsorbing naturally occurring mycotoxins or managing intestinal bacterial and fungal biotoxins. Our MD-09 moisture manager product is another feed additive for the reduction of wet droppings in poultry. Pel-Unite and Pel-Unite Plus products are specialized animal feed pellet binders. These products are sold through a network of feed products distributors in the United States and/or through agreements with animal health and nutrition products distributors in Latin America, Africa, the Middle East and Asia. Beginning in fiscal year 2014, these products were also sold by sales people employed by our subsidiary located in China, as further described in Foreign Operations below.

Bleaching Clay and Purification Aid Products

We produce an array of bleaching, purification and filtration applications used by edible oil, jet fuel and other petroleum-based product processors around the world. Bleaching clays are used by edible oil processors to adsorb soluble contaminants that create oxidation problems. Our Pure-Flo and Perform bleaching clays remove impurities, such as trace metals, chlorophyll and color bodies, in various types of edible oils. Perform products provide increased activity for hard-to-bleach oils. Our Select adsorbents are used to remove contaminants in vegetable oil processing and can be used to prepare oil prior to the creation of biodiesel fuel. Our Ultra-Clear product is used as a filtration and purification medium for jet fuel and other petroleum-based products. These products are marketed in the United States and in international markets. The products are supported by our team of technical sales employees as well as by agent representatives and the services of our research and development group.

Cat Litter Products

Branded products. We produce two types of mineral-based cat litter products, traditional coarse and scoopable, both of which have absorbent and odor controlling characteristics. Scoopable litters have the additional characteristic of clumping when exposed to moisture, allowing the consumer to selectively dispose of the used portion of the litter. Our coarse and scoopable products are sold under our Cat's Pride and Jonny Cat brand names. Our Cat's Pride Fresh & Light product line introduced a scoopable lightweight litter to the industry that offers superior performance with the added convenience of being lighter to carry and pour. In addition, we offer our coarse litter in a pre-packaged, disposable tray under the Cat's Pride KatKit and Jonny Cat brands. Moreover, we offer litter box liners under the Cat's Pride and Jonny Cat product lines.

Private label products. We also produce private label cat litters for other customers that are sold through both independent food brokers and our sales force to major grocery, drug, dollar store, mass-merchandise and pet outlets. During fiscal 2015 we began producing scoopable lightweight private label cat litters.

Co-packaged products. We have two long-term supply arrangements (one of which is material to our business) under which we manufacture branded traditional litters for other marketers. Under these co-manufacturing relationships, the marketer controls all aspects of sales, marketing, and distribution, as well as the odor control formula, and we are responsible for manufacturing. The long-term supply agreement that is material to our business is with Clorox, under which we have the exclusive right to supply Clorox's requirements for Fresh Step coarse cat litter up to certain levels.

Industrial and Automotive Products

We manufacture and/or sell products made from clay, polypropylene and recycled cotton materials that absorb oil, grease, water and other types of spills. These products are used in industrial, home and automotive environments. Our clay-based sorbent products, such as Oil-Dri branded floor absorbent, are used for floor maintenance in industrial

applications to provide a non-slip and non-flammable surface for workers. These floor absorbents are also used in automotive repair facilities, car dealerships and other industrial applications, as well as for home use in garages and driveways. Our Oil-Dri branded polypropylene-based and cotton-based products are sold in various forms, such as pads, rolls, socks, booms and spill kits. In fiscal year 2015 we introduced a new product called Snow & Go, with a combination of clay and salt to serve as a unique winter traction aid that melts snow and ice and then absorbs the melted water before it can re-freeze.

Industrial and automotive sorbent products are sold through a distribution network that includes industrial, auto parts, safety, sanitary supply, chemical and paper distributors. These products are also sold through environmental service companies, mass merchandisers, catalogs and the Internet.

Sports Products

Pro's Choice Sports Field Products are used on baseball, softball, football and soccer fields. Pro's Choice soil conditioners are used in field construction or as top dressing to absorb moisture, suppress dust and improve field performance. Pro Mound packing clay is used to construct pitcher's mounds and batter's boxes. Rapid Dry drying agent is used to dry up puddles and slick spots after rain. Sports products are used at all levels of play, including professional, college and high school and on municipal fields. These products are sold through a network of distributors specializing in sports turf products.

BUSINESS SEGMENTS

We have two reportable operating segments for financial reporting derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group. The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet specialty retail outlets, dollar stores, retail grocery stores, distributors of industrial cleanup and automotive products, environmental service companies and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products. Certain financial information on both segments is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

We do not manage our business, allocate resources or generate revenue data by product line. Any of our products may be sold in one or both of our operating segments. Information concerning total revenue of classes of similar products accounting for more than 10% of consolidated revenues in any of the last three fiscal years is not separately provided because it would be impracticable to do so.

FOREIGN OPERATIONS

Our wholly-owned subsidiary, Amlan Trading (Shenzhen) Company, Ltd., located in Shenzhen, China, is dedicated to animal health and provides natural disease management solutions for livestock. This subsidiary primarily sells animal health and nutrition products under our Amlan brand name.

Our wholly-owned subsidiary, Oil-Dri Canada ULC, is a manufacturer, distributor and marketer of branded and private label cat litter in the Canadian marketplace. Among its leading brands are Saular, Cat's Pride and Jonny Cat. Our Canadian business also manufactures or purchases and sells industrial granule floor absorbents, synthetic polypropylene sorbent materials and agricultural chemical carriers.

Our wholly-owned subsidiary, Oil-Dri (U.K.) Limited, is a manufacturer, distributor and marketer of industrial floor absorbents, bleaching earth and cat litter. These products are marketed in the United Kingdom and Western Europe. Oil-Dri (U.K.) Limited also sells synthetic polypropylene sorbent materials, filtration units and plastic containment products.

Our wholly-owned subsidiary, Oil-Dri SARL, is a Swiss company that performs various management, customer service and administrative functions for the international business of our domestic operations.

Our foreign operations are subject to the normal risks of doing business overseas, such as currency fluctuations, restrictions on the transfer of funds and import/export duties. Foreign currency fluctuations negatively affected our operating results in fiscal year 2015; however, we were not materially impacted by these foreign currency fluctuations in any of our last three fiscal years. See Item 7A "Quantitative and Qualitative Disclosures About Market Risk" for

further information about our foreign markets risks. Certain financial information about our foreign operations is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

CUSTOMERS

Sales to Wal-Mart Stores, Inc. (“Walmart”) and its affiliates accounted for approximately 18%, 19% and 20% of our total net sales for fiscal years 2015, 2014 and 2013, respectively. Walmart is a customer in our Retail and Wholesale Products Group segment. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales; however, sales to Clorox (a customer in our Business to Business Products Group) and its affiliates accounted for approximately 6% of total net sales for each of fiscal years 2015 and 2014, and 7% of total net sales for fiscal year 2013. The degree of margin contribution of our significant customers in the Business to Business Products Group varies, with certain customers

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having a greater effect on our operating results. The loss of any customer other than those described in this paragraph would not be expected to have a material adverse effect on our business.

COMPETITION

Price, customer service, marketing, technical support, product quality and distribution resources are the principal methods of competition in our markets and competition historically has been very vigorous. Some of our competitors, particularly in the sale of cat litter (the largest product in our Retail and Wholesale Products Group), have substantially greater financial resources or market presence than we do and have established brands.

In our Retail and Wholesale Products Group, we have five principal competitors, including one which is also our customer. The overall cat litter market has been stable in recent years as household cat ownership has remained relatively constant. Scoopable products have a majority of the cat litter market share followed by traditional coarse products. Growth in the scoopable cat litter segment has been driven by the introduction of lightweight products, while coarse cat litter continues to decline. The overwhelming majority of all cat litter is mineral based; however, cat litters based on alternative strata such as paper, various agricultural waste products and silica gels have niche positions. There is significant competition to attract consumers of cat litter across multi-outlet channels, including grocery, mass-merchandisers, dollar, pet and drug stores. We differentiate ourselves through product innovation, our operations with a nation-wide distribution network, strong customer service and world class sales, marketing and research and development teams, which gives us a potential advantage over smaller and regional manufacturers.

In the Business to Business Products Group, we have ten principal competitors. Our agricultural chemical carrier products have experienced competition from new engineered granular technologies in the agricultural and horticultural markets. Our bleaching clay and fluids purification products are sold in a highly cost competitive global marketplace. Performance is a primary competitive factor for these products. The animal health portion of this segment also operates in a global marketplace with price and performance competition from multi-national and local competitors.

PATENTS

We have obtained or applied for patents for certain of our processes and products sold to customers in both the Retail and Wholesale Products Group and the Business to Business Products Group. These patents expire at various times, including in fiscal year 2016. We expect no material impact on our business from the expiration of patents in the upcoming year.

BACKLOG; SEASONALITY

As of July 31, 2015, 2014 and 2013, our backlog of orders were valued at approximately \$9,617,000, \$7,401,000 and \$8,503,000, respectively. The value of backlog orders was determined by the number of tons on backlog order and the net selling prices. All backlog orders are expected to be filled within the next 12 months. We consider our business, taken as a whole, to be moderately seasonal; however, business activities of certain customers (such as agricultural chemical manufacturers) are subject to such seasonal factors as crop acreage planted, product formulation cycles and weather conditions.

EFFECTS OF INFLATION

Inflation generally affects us by increasing the cost of employee wages and benefits, transportation, processing equipment, purchased raw materials and packaging, energy and borrowings under our credit facility. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below.

RESERVES

We mine our clay on leased or owned land near our manufacturing facilities in Mississippi, Georgia, Illinois and California; we also have reserves in Nevada, Oregon and Tennessee. We estimate that our proven mineral reserves at July 31, 2015 are approximately 146,906,000 tons in aggregate and our probable reserves are approximately 135,072,000 tons in aggregate, for a total of 281,978,000 tons of mineral reserves. Based on our rate of consumption during fiscal year 2015, and without regard to any of our reserves in Nevada, Oregon and Tennessee, we consider our proven reserves adequate to supply our needs for over 40 years. Although we consider these reserves to be extremely valuable to our business, only a small portion of the reserves, those which were acquired in acquisitions, was reflected at cost on our balance sheet.

It is our policy to attempt to add to reserves in most years, but not necessarily in every year, an amount at least equal to the amount of reserves consumed in that year. We have a program of exploration for additional reserves and, although reserves

have been acquired, we cannot assure that additional reserves will continue to become available. Our use of these reserves, and our ability to explore for additional reserves, are subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. During the fiscal year 2015, we utilized these reserves to produce a majority of the sorbent products that we sold.

Proven reserves are those reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established. Probable reserves are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. We employ geologists and mineral specialists who estimate and evaluate existing and potential reserves in terms of quality, quantity and availability.

MINING OPERATIONS

We have conducted mining operations in Ripley, Mississippi since 1963, in Ochlocknee, Georgia since 1968, in Blue Mountain, Mississippi since 1989, in Mounds, Illinois since 1998 and in Taft, California since 2002. Our clay is surface mined on a year-round basis, generally using large earth moving scrapers, bulldozers, or excavators and off-road trucks to remove overburden (non-usable material), and then loaded into dump trucks with backhoes or front end loaders for movement to the processing facilities. The mining and hauling of our clay is performed by us and by independent contractors. Our current operating mines range in distance from immediately adjacent to approximately 13 miles from the related processing plants. Processing facilities are generally accessed from the mining areas by private roads and in some instances by public highways. Each of our processing facilities maintains inventories of unprocessed clay of approximately one week of production requirements. See Item 2 “Properties” below for additional information regarding our mining properties and operations.

The following schedule summarizes the net book value of land and other plant and equipment for each of our manufacturing facilities at July 31, 2015 (in thousands):

	Land & Mineral Rights	Plant and Equipment
Ochlocknee, Georgia	\$8,721	\$32,695
Ripley, Mississippi	\$1,804	\$9,975
Mounds, Illinois	\$1,574	\$1,706
Blue Mountain, Mississippi	\$908	\$11,108
Taft, California	\$1,506	\$3,972

EMPLOYEES

During fiscal year 2015 we employed approximately 797 persons, 46 of whom were employed by our foreign subsidiaries. We believe our corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 49 of our employees in the U.S. and approximately 18 of our employees in Canada are represented by labor unions, with whom we have entered into separate collective bargaining agreements. We consider our employee relations to be satisfactory.

ENVIRONMENTAL COMPLIANCE

Our mining and manufacturing operations and facilities in Georgia, Mississippi, California and Illinois are required to comply with state surface mining and environmental protection statutes. These domestic locations and our Canadian operations are subject to various federal, state and local statutes, regulations and ordinances which govern the

discharge of materials, water and waste into the environment or otherwise regulate our operations. In recent years, environmental regulation has grown increasingly stringent, a trend that we expect will continue. We endeavor to be in compliance at all times and in all material respects with all applicable environmental controls and regulations. As a result, expenditures relating to environmental compliance have increased over the years; however, these expenditures have not been material. As part of our ongoing environmental compliance activities, we incur expenses in connection with reclaiming mining sites. Historically, reclamation expenses have not had a material effect on our cost of sales.

In addition to the environmental requirements related to our mining and manufacturing operations and facilities, there has been increased federal and state regulation with respect to the content, labeling, use, and disposal after use of various products that we sell. We endeavor to be in compliance at all times and in all material respects with those regulations and to assist our customers in that compliance.

We cannot assure that, despite all commercially reasonable efforts, we will always be in compliance in all material respects with all applicable environmental regulations or with requirements regarding the content, labeling, use, and disposal after use of our products; nor can we assure that from time to time enforcement of such requirements will not have a material adverse effect on our business. See Item 1A “Risk Factors” below for a discussion of these and other risks to our business.

ENERGY

We primarily used natural gas in the processing of our clay products during fiscal year 2015. We have the ability to switch among various energy sources, including natural gas, recycled oil and coal as permitted. See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below for more information about commodity risk with respect to our energy use.

RESEARCH AND DEVELOPMENT

At our research and development facility in Vernon Hills, Illinois, we develop new products and applications and improve existing products. The facility’s staff (and various consultants they engage from time to time) may consist of geologists, mineralogists, chemists and doctors of veterinary medicine. In the past several years, our research efforts have resulted in a number of new sorbent products and processes. The facility produces prototype samples and tests new products for customer trial and evaluation. No significant research and development was customer sponsored, and all research and development costs are expensed in the period in which incurred. See Note 1 of the Notes to the Consolidated Financial Statements for further information about research and development expenses.

AVAILABLE INFORMATION

This Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on or through the “Investor Information” section of our website at www.oildri.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Information related to corporate governance at Oil-Dri, including its Code of Ethics and Business Conduct, information concerning executive officers, directors and Board committees, and transactions in Oil-Dri securities by directors and executive officers, is available free of charge on or through the “Investor Information” section of our website at www.oildri.com. The information on our website is not included as a part of, nor incorporated by reference into, this Annual Report on Form 10-K.

ITEM 1A – RISK FACTORS

We seek to identify, manage and mitigate risks to our business, but risk and uncertainty cannot be eliminated or necessarily predicted. You should consider the following factors carefully, in addition to other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities.

Risks Related to our Business

Our future growth and financial performance depend in large part on successful new product introductions.

A significant portion of our net sales comes from the sale of products in mature categories, some of which have had little or no volume growth or have had volume declines in recent fiscal years. Our future growth and financial performance will require that we successfully introduce new products or extend existing product offerings to meet emerging customer needs, technological trends and product market opportunities. We cannot be certain that we will achieve these goals. The development and introduction of new products generally require substantial and effective research, development and marketing expenditures, some or all of which may be unrecoverable if the new products do not gain market acceptance. New product development itself is inherently risky, as research failures, competitive barriers arising out of the intellectual property rights of others, launch and production difficulties, customer rejection and unexpectedly short product life cycles may occur even after substantial effort and expense on our part. Even in the case of a successful launch of a new product, the ultimate benefit we realize may be uncertain if the new product “cannibalizes” sales of our existing products beyond expected levels.

We face intense competition in our markets.

Our markets are highly competitive and we expect that both direct and indirect competition will increase in the future. Our overall competitive position depends on a number of factors including price, customer service, marketing, technical support, product quality and delivery. Some of our competitors, particularly in the sale of cat litter (the largest product in our Retail and Wholesale Products Group), have substantially greater financial resources or market presence and have established brands. The competition in the future may, in some cases, result in price reductions, reduced margins or loss of market share or product distribution, any of which could materially and adversely affect our business, operating results and financial condition. If we fail to compete successfully based on these or other factors, our business, financial condition and future financial results could be materially and adversely affected.

Our periodic results may be volatile.

Our operating results have varied on a quarterly basis during our operating history and are likely to fluctuate significantly in the future. Our expense levels are based, in part, on our expectations regarding future net sales, and many of our expenses are fixed, particularly in the short term. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant shortfall of net sales in relation to our expectations could negatively affect our quarterly operating results. Our operating results may be below the expectations of our investors as a result of a variety of factors, many of which are outside our control. Factors that may affect our quarterly operating results include:

- fluctuating demand for our products and services;
- size and timing of sales of our products and services;
- the mix of products with varying profitability sold in a given quarter;
- changes in our operating costs including raw materials, energy, transportation, packaging, overburden removal, trade spending and marketing, wages and other employee-related expenses such as health care costs, and other costs;
- our ability to anticipate and adapt to rapidly changing conditions;

introduction of new products and services by us or our competitors;
our ability to successfully implement price increases and surcharges, as well as other changes in our pricing policies or those of our competitors;
variations in purchasing patterns by our customers, including due to weather conditions;
the ability of major customers and other debtors to meet their obligations to us as they come due;
our ability to successfully manage regulatory, intellectual property, tax and legal matters;
adverse litigation judgments, settlements, or other litigation-related costs;
the overall tax rate of our business, which may be affected by a number of factors, including the use of tax attributes, such as AMT tax credits, the financial results of our international subsidiaries and the timing, size and integration of acquisitions we may make from time to time;
the incurrence of restructuring, impairment or other charges; and

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• general economic conditions and specific economic conditions in our industry and the industries of our customers.

Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Investors should not rely on the results of one quarter as an indication of our future performance.

Acquisitions involve a number of risks, any of which could cause us not to realize the anticipated benefits.

We intend from time to time to strategically explore potential opportunities to expand our operations and reserves through acquisitions. Identification of good acquisition candidates is difficult and highly competitive. If we are unable to identify attractive acquisition candidates, complete acquisitions, and successfully integrate the companies, businesses or properties that we acquire, our profitability may decline and we could experience a material adverse effect on our business, financial condition, or operating results. Acquisitions involve a number of inherent risks, including:

- uncertainties in assessing the value, strengths, and potential profitability of acquisition candidates, and in identifying the extent of all weaknesses, risks, contingent and other liabilities (including environmental, legacy product or mining safety liabilities) of those candidates;
- the potential loss of key customers, management and employees of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition;
- problems that could arise from the integration of the acquired business; and
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying our rationale for pursuing the acquisition.

Any one or more of these factors could cause us not to realize the benefits we anticipate to result from an acquisition. Moreover, acquisition opportunities we pursue could materially affect our liquidity and capital resources and may require us to incur indebtedness, seek equity capital or both. In addition, future acquisitions could result in our assuming more long-term liabilities relative to the value of the acquired assets than we have assumed in our previous acquisitions.

We depend on a limited number of customers for a large portion of our net sales.

A limited number of customers account for a large percentage of our net sales, as described in Item 1 “Business” above. The loss of, or a substantial decrease in the volume of, purchases by Walmart, Clorox or any of our other top customers would harm our sales and profitability. In addition, an adverse change in the terms of our dealings with, or in the financial wherewithal or viability of, one or more of our significant customers could harm our business, financial condition and results of operations.

We expect that a significant portion of our net sales will continue to be derived from a small number of customers and that the percentage of net sales represented by these customers may increase. As a result, changes in the strategies of our largest customers may reduce our net sales. These strategic changes may include a reduction in the number of brands or variety of products they carry or a shift of shelf space to private label products or increased use of global or centralized procurement initiatives. In addition, our business is based primarily upon individual sales orders placed by customers rather than contracts with a fixed duration. Accordingly, most of our customers could reduce their purchasing levels or cease buying products from us on relatively short notice. While we do have long-term contracts with certain of our customers, including Clorox, even these agreements are subject to termination in certain circumstances. In addition, the degree of profit margin contribution of our significant customers varies. If a significant customer with a more favorable profit margin was to terminate its relationship with us or shift its mix of product purchases to lower-margin products, it would have a disproportionately adverse impact on our results of operations.

Price or trade concessions, or the failure to make them to retain customers, could adversely affect our sales and profitability.

The products we sell are subject to significant price competition. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures and to maintain market share. These pressures are often exacerbated during an economic downturn. Any reduction in prices to respond to these pressures would reduce our profit margins. In addition, if our sales volumes fail to grow sufficiently to offset any reduction in margins, our results of operations would suffer. Because of the competitive environment facing many of our customers, particularly our high-volume mass merchandiser customers, these customers have increasingly sought to obtain price reductions, specialized packaging or other concessions from product suppliers. These business demands may relate to inventory practices, logistics or other aspects of the customer-supplier relationship. To the extent we provide these concessions, our profit margins are reduced. Further, if we are unable to maintain terms that are acceptable to our customers, these customers could reduce purchases of our products and increase purchases of products from our competitors, which would harm our sales and profitability.

Increases in energy and other commodity prices would increase our operating costs, and we may be unable to pass all these increases on to our customers in the form of higher prices and surcharges.

If our energy costs increase disproportionately to our net sales, our earnings could be significantly reduced. Increases in our operating costs may reduce our profitability if we are unable to pass all the increases in energy and other commodity prices on to our customers through price increases or surcharges. Sustained price increases or surcharges in turn may lead to declines in volume, and while we seek to project tradeoffs between price increases and surcharges, on the one hand, and volume, on the other, there can be no assurance that our projections will prove to be accurate.

We are subject to volatility in the price and availability of natural gas, as well as other sources of energy. We have the ability, as we have from time to time in the past, to reallocate a portion of our energy needs among different sources of energy due to seasonal supply limitations and the higher cost of one particular fuel relative to other fuels; however, there can be no assurance that we will be able to effectively reallocate among different fuels in the future. From time to time, we may use forward purchase contracts or financial instruments to hedge the volatility of a portion of our energy costs. The success or failure of any such hedging transactions depends on a number of factors, including our ability to anticipate and manage volatility in energy prices, the general demand for fuel by the manufacturing sector, seasonality and the weather patterns throughout the United States and the world.

The prices of other commodities such as paper, plastic resins, synthetic rubber and steel significantly influence the costs of packaging, replacement parts and equipment we use in the manufacture of our products and the maintenance of our facilities. As a result, increases in the prices of these commodities generally increase the costs of the related materials we use. These increased materials costs present the same types of risks as described above with respect to increased energy costs.

Our business could be negatively affected by supply, capacity, information technology and logistics disruptions.

Supply, capacity, information technology and logistics disruptions could adversely affect our ability to manufacture, package or transport our products. Some of our products require raw materials that are provided by a limited number of suppliers, or are demanded by other industries or are simply not available at times. Also, some of our products are manufactured on equipment at or near its capacity thus limiting our ability to sell additional volumes of such products until more capacity is obtained. Moreover, disruptions, failures, cyber-attacks or privacy breaches in the information technology or phone systems of us or our customers could adversely affect our communications and business operations. In addition, an increase in truck or ocean freight costs may reduce our profitability if we are unable to pass such increases on to our customers through price increases or surcharges, and a decrease in transportation availability may affect our ability to deliver our products to our customers and consequently decrease customer satisfaction and future orders.

Changes in inventory strategy by our customers as well as other external factors could adversely affect our sales and increase our inventory risk.

From time to time, customers in both our Retail and Wholesale Products Group and our Business to Business Products Group have changed inventory levels as part of managing their working capital requirements. Any change in inventory levels by our customers would harm our operating results for the financial periods affected by the reductions. In particular, continued consolidation within the retail industry could potentially reduce inventory levels maintained by our retail customers, which could adversely affect our results of operations for the financial periods affected by the reductions.

The value of our inventory may decline as a result of surplus inventory, packaging changes driven by regulatory requirements or market refreshment, price reductions or obsolescence. We must identify the right product mix and

maintain sufficient inventory on hand to meet customer orders. Failure to do so could adversely affect our revenue and operating results. If circumstances change (for example, an unexpected shift in market demand, pricing or customer defaults) there could be a material impact on the net realizable value of our inventory. We maintain an inventory valuation reserve account against diminution in the value or saleability of our inventory; however, there is no guaranty that these arrangements will be sufficient to avoid write-offs in excess of our reserves.

Environmental, health and safety matters create potential compliance and other liability risks.

We are subject to a variety of federal, state, local and foreign laws and regulatory requirements relating to the environment and to health and safety matters. For example, our mining operations are subject to extensive governmental regulation on matters such as permitting and licensing requirements, workplace safety, plant and wildlife protection, wetlands and other environmental protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, and the effects that mining has on air or groundwater quality and water availability. We believe we have obtained

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all material permits and licenses required to conduct our present operations. We will, however, need additional permits and renewals of permits in the future.

The expense, liabilities and requirements associated with environmental, health and safety laws and regulations are costly and time-consuming and may delay commencement or continuation of exploration, mining or manufacturing operations. We have incurred, and will continue to incur, significant capital and operating expenditures and other costs in complying with environmental, health and safety laws and regulations. In recent years, regulation of environmental, health and safety matters has grown increasingly stringent, a trend that we expect will continue. Substantial penalties may be imposed if we violate certain of these laws and regulations even if the violation was inadvertent or unintentional. Failure to maintain or achieve compliance with these laws and regulations or with the permits required for our operations could result in substantial operating costs and capital expenditures, in addition to fines and administrative, civil or criminal sanctions, third-party claims for property damage or personal injury, cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting our operations. Under the “joint and several” liability principle of certain environmental laws, we may be held liable for all remediation costs at a particular site and the amount of that liability could be material. In addition, future environmental laws and regulations could restrict our ability to expand our facilities or extract our existing reserves or could require us to acquire costly equipment or to incur other significant expenses in connection with our business. There can be no assurance that future events, including changes in any environmental requirements and the costs associated with complying with such requirements, will not have a material adverse effect on us.

Government regulation imposes significant costs on us, and future regulatory changes (or related customer responses to regulatory changes) could increase those costs or limit our ability to produce and sell our products.

In addition to the regulatory matters described above, our operations are subject to various federal, state, local and foreign laws and regulations relating to the manufacture, packaging, labeling, content, storage, distribution and advertising of our products and the conduct of our business operations. For example, in the United States, some of our products are regulated by the Food and Drug Administration, the Consumer Product Safety Commission and the Environmental Protection Agency and our product claims and advertising are regulated by the Federal Trade Commission. Most states have agencies that regulate in parallel to these federal agencies. In addition, our international sales and operations are subject to regulation in each of the foreign jurisdictions in which we manufacture, distribute or sell our products. There is increasing federal and state regulation with respect to the content, labeling, use, and disposal after use of various products we sell. Throughout the world, but particularly in the United States and Europe, there is also increasing government scrutiny and regulation of the food chain and products entering or affecting the food chain.

If we are found to be out of compliance with applicable laws and regulations in these or other areas, we could be subject to loss of customers and to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business. Loss of or failure to obtain necessary permits and registrations could delay or prevent us from meeting product demand, introducing new products, building new facilities or acquiring new businesses and could adversely affect operating results. If these laws or regulations are changed or interpreted differently in the future, it may become more difficult or expensive for us to comply. In addition, investigations or evaluations of our products by government agencies may require us to adopt additional labeling, safety measures or other precautions, or may effectively limit or eliminate our ability to market and sell these products. Accordingly, there can be no assurance that current or future governmental regulation will not have a material adverse effect on our business or that we will be able to obtain or renew required governmental permits and registrations in the future.

We are also experiencing increasing customer scrutiny of the content and manufacturing of our products, particularly our products entering or affecting the food chain, in parallel with the increasing government regulation discussed

above. Our customers may impose product specifications or other requirements that are different from, and more onerous than, applicable laws and regulations. As a result, the failure of our products to meet these additional requirements may result in loss of customers and decreased sales of our products even in the absence of any actual failure to comply with applicable laws and regulations. There can be no assurance that future customer requirements concerning the content or manufacturing of our products will not have a material adverse effect on our business.

We depend on our mining operations for a majority of our supply of sorbent minerals.

Most of our principal raw materials are sorbent minerals mined by us or independent contractors on land that we own or lease. While our mining operations are conducted in surface mines, which do not present many of the risks associated with deep underground mining, our mining operations are nevertheless subject to many conditions beyond our control. Our mining operations are affected by weather and natural disasters, such as earthquakes, tornadoes, hurricanes, heavy rains and flooding, equipment failures and other unexpected maintenance problems, variations in the amount of rock and soil overlying our reserves, variations

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in geological conditions, fires and other accidents, fluctuations in the price or availability of supplies and other matters. Any of these risks could result in significant damage to our mining properties or processing facilities, personal injury to our employees, environmental damage, delays in mining or processing, losses or possible legal liability. We cannot predict whether or the extent to which we will suffer the impact of these and other conditions in the future.

We may not be successful in acquiring adequate additional reserves in the future.

We have an ongoing program of exploration for additional reserves on existing properties as well as through the potential acquisition of new owned or leased properties; however, there can be no assurance that our attempts to acquire additional reserves in the future will be successful. Our ability to acquire additional reserves in the future could be limited by competition from other companies for attractive properties, the lack of suitable properties that can be acquired on terms acceptable to us or restrictions under our existing or future debt facilities. We may not be able to negotiate new leases or obtain mining contracts for properties containing additional reserves or renew our leasehold interests in properties on which operations are not commenced during the term of the lease. Also, requirements for environmental compliance may restrict exploration or use of lands that might otherwise be utilized as a source of reserves.

Failure to effectively utilize or successfully assert intellectual property rights, and the loss or expiration of such rights, could materially adversely affect our competitiveness. Infringement of third-party intellectual property rights could result in costly litigation and/or the modification or discontinuance of our products.

We rely on intellectual property rights based on trademark, trade secret, patent and copyright laws to protect our brands, products and packaging for our products. We cannot be certain that these intellectual property rights will be maximized or that they can be successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights or, where appropriate, license intellectual property rights necessary to support new product introductions. We cannot be certain that these rights, if obtained, will not later be invalidated, circumvented or challenged, and we could incur significant costs in connection with legal actions to assert our intellectual property rights or to defend those rights from assertions of invalidity. In addition, even if such rights are obtained in the United States, the laws of some of the other countries in which our products are or may be sold may not protect intellectual property rights to the same extent as the laws of the United States. If other parties infringe our intellectual property rights, they may dilute the value of our brands in the marketplace, which could diminish the value that consumers associate with our brands and harm our sales. The failure to perfect or successfully assert our intellectual property rights could make us less competitive and could have a material adverse effect on our business, operating results, and financial condition.

In addition, if our products are found to infringe intellectual property rights of others, the owners of those rights could bring legal actions against us claiming substantial damages for past infringement and seeking to enjoin manufacturing and marketing of the affected products. If these legal actions are successful, in addition to any potential liability for damages from past infringement, we could be required to obtain a license in order to continue to manufacture or market the affected products, potentially adding significant costs. We may not prevail in any action brought against us or we may be unsuccessful in securing any license for continued use and therefore have to discontinue the marketing and sale of a product. This could make us less competitive and could have a material adverse impact on our business, operating results and financial condition.

The loss of any key member of our senior management team may impede the implementation of our business plans in a timely manner.

The execution of our business plans depends in part upon the continued service of our senior management team, who possess unique and extensive industry knowledge and experience. The loss or other unavailability of one or more of

the key members of our senior management team could adversely impact our ability to manage our operations effectively and/or pursue our business strategy. No company-owned life insurance coverage has been obtained on these team members.

We face risks as a result of our international sales and business operations.

We derived approximately 21% of our consolidated net sales from sales outside of the United States in fiscal year 2015. Our ability to sell our products and conduct our operations outside of the United States is subject to a number of risks. Local economic, political and labor conditions in each country could adversely affect demand for our products or disrupt our operations in these markets, particularly when local political and economic conditions are unstable. In addition, international sales and operations are subject to currency exchange fluctuations, fund transfer and trade restrictions and import/export duties, and international operations are subject to foreign regulatory requirements and issues, including with respect to environmental matters. Any of these matters could result in sudden, and potentially prolonged, changes in demand for our products. Also, we may have difficulty enforcing agreements and collecting accounts receivable through a foreign country's legal system.

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We may incur adverse safety events or product liability claims that may be costly, create adverse publicity and may add further governmental regulation.

If any of the products that we sell cause, or appear to cause, harm to any of our customers or to consumers, we could be exposed to product liability lawsuits, heightened regulatory scrutiny, requirements for additional labeling, withdrawal of products from the market, imposition of fines or criminal penalties or other governmental actions. Any of these actions could result in material write-offs of inventory, material impairments of intangible assets, goodwill and fixed assets, material restructuring charges and other adverse impacts on our business operations. We cannot predict with certainty the eventual outcome of any pending or future litigation, and we could be required to pay substantial judgments or settlements against us or change our product formulations in response to governmental action. Further, lawsuits can be expensive to defend, whether or not they have merit, and the defense of these actions may divert the attention of our management and other resources that would otherwise be engaged in managing our business and our reputation could suffer, any of which could harm our business.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, operating results and stock price.

Section 404 of the Sarbanes-Oxley Act and related SEC rules require that we perform an annual management assessment of the design and effectiveness of our internal control over financial reporting and obtain an opinion from our independent registered public accounting firm on our internal control over financial reporting. Our assessment concluded that our internal control over financial reporting was effective as of July 31, 2015 and we obtained from our independent registered public accounting firm an unqualified opinion on our internal control over financial reporting; however, there can be no assurance that we will be able to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time in future periods. Accordingly, we cannot assure that we will be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our Common Stock could drop significantly.

Risks Related to Our Common Stock

Our principal stockholders have the ability to control matters requiring a stockholder vote and could delay, deter or prevent a change in control of our company.

Under our Certificate of Incorporation, the holders of our Common Stock are entitled to one vote per share and the holders of our Class B Stock are entitled to ten votes per share; the two classes generally vote together without regard to class (except that any amendment to our Certificate of Incorporation changing the number of authorized shares or adversely affecting the rights of Common Stock or Class B Stock requires the separate approval of the class so affected as well as the approval of both classes voting together). As a result, the holders of our Class B Stock exert control over us and thus limit the ability of other stockholders to influence corporate matters. Beneficial ownership of Common Stock and Class B Stock by Jaffee Investment Partnership, L.P. and its affiliates (including Richard M. Jaffee, our Chairman, and Daniel S. Jaffee, his son and our President and Chief Executive Officer) provides them with the ability to control the election of our Board of Directors and the outcome of most matters requiring the approval of our stockholders, including the amendment of certain provisions of our Certificate of Incorporation and By-Laws, the approval of any equity-based employee compensation plans and the approval of fundamental corporate transactions, including mergers and substantial asset sales. Through their concentration of voting power, our principal stockholders may be able to delay, deter or prevent a change in control of our company or other business combinations that might

otherwise be beneficial to our other stockholders.

We are a “controlled company” within the meaning of the New York Stock Exchange (“NYSE”) rules and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

We are a “controlled company” under the New York Stock Exchange Corporate Governance Standards. As a controlled company, we may rely on exemptions from certain NYSE corporate governance requirements that otherwise would be applicable, including the requirements:

- that a majority of the board of directors consists of independent directors;
- that we have a nominating and governance committee comprised entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;

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that we have a compensation committee comprised entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;

that we include in our proxy statements certain information regarding compensation consultants and related conflicts of interest; and

that we conduct an annual performance evaluation of the nominating and corporate governance and compensation committees.

We have previously relied on these exemptions, and we intend to continue to rely on them in the future. As a result, you may not have the same benefits and information available to stockholders of NYSE-listed companies that are subject to all of the NYSE corporate governance requirements.

The market price for our Common Stock may be volatile.

In recent periods, there has been volatility in the market price for our Common Stock. Furthermore, the market price of our Common Stock could fluctuate substantially in the future in response to a number of factors, including the following:

- fluctuations in our quarterly operating results or the operating results of our competitors;
- changes in general conditions in the economy, the financial markets, or the industries in which we operate;
- announcements of significant acquisitions, strategic alliances or joint ventures by us, our customers or our competitors;
- introduction of new products or services;
- increases in the price of energy sources and other raw materials; and
- other developments affecting us, our industries, customers or competitors.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our Common Stock price, regardless of our operating results. Given its relatively small public float, number of shareholders and average daily trading volume, our Common Stock may be relatively more susceptible to volatility arising from any of these factors. There can be no assurance that the price of our Common Stock will increase in the future or be maintained at its recent levels.

Future sales of our Common Stock could depress its market price.

Future sales of shares of our Common Stock could adversely affect its prevailing market price. If our officers, directors or significant stockholders sell a large number of shares, or if we issue a large number of shares, the market price of our Common Stock could significantly decline. Moreover, the perception in the public market that stockholders might sell shares of Common Stock could depress the market for our Common Stock. Our Common Stock's relatively small public float and average daily trading volume may make it relatively more susceptible to these risks.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 – PROPERTIES

Real Property Holdings and Mineral Reserves

	Land Owned (acres)	Land Leased	Land Unpatented Claims	Total	Estimated Proven Reserves (thousands of tons)	Estimated Probable Reserves	Total
California	795	—	1,030	1,825	4,263	11,226	15,489
Georgia	3,846	1,597	—	5,443	34,510	24,592	59,102
Illinois	82	508	—	590	3,365	—	3,365
Mississippi	2,156	999	—	3,155	78,452	93,253	171,705
Nevada	535	—	—	535	23,316	2,976	26,292
Oregon	340	—	—	340	—	25	25
Tennessee	178	—	—	178	3,000	3,000	6,000
	7,932	3,104	1,030	12,066	146,906	135,072	281,978

The Mississippi, Georgia, Tennessee, Nevada, California and Illinois properties are primarily mineral in nature, except our research and development facility which is included in the Illinois owned land. We mine sorbent minerals primarily consisting of montmorillonite and attapulgite and, to a lesser extent, other clay-like sorbent materials, such as Antelope shale. We employ geologists and mineral specialists who prepared the estimated reserves of these minerals in the table above. See also Item 1 “Business” above for further information about our reserves. The locations in the table above collectively produced approximately 808,000 tons of finished product in fiscal year 2015, 857,000 tons in fiscal year 2014 and 794,000 tons in fiscal year 2013. Parcels of such land are also sites of manufacturing facilities operated by us. We own approximately one acre of land in Laval, Quebec, Canada, which is the site of the processing, packaging and distribution facility for our Canadian subsidiary.

MINING PROPERTIES

Our mining operations are conducted on land that we own or lease. The Georgia, Illinois and Mississippi mining leases generally require that we pay a minimum monthly rent to continue the lease term. The rental payments are typically applied against a stated royalty related to the number of unprocessed, or in some cases processed, tons of minerals extracted from the leased property. Many of our mining leases have no stated expiration dates. Some of our leases, however, do have expiration dates ranging from 2023 to 2097. We would not experience a material adverse effect from the expiration or termination of any of these leases. We have a variety of access arrangements, some of which are styled as leases, for manufacturing at facilities that are not contiguous with the related mines. We would not experience a material adverse effect from the expiration or termination of any of these arrangements. See also Item 1 “Business” above for further information on our reserves.

Certain of our land holdings in California are represented by unpatented mining claims we lease from the Bureau of Land Management. These leases generally give us the contractual right to conduct mining or processing activities on the land covered by the claims. The validity of title to unpatented claims, however, is dependent upon numerous factual matters. We believe the unpatented claims we lease are in compliance with all applicable federal, state and local mining laws, rules and regulations. Future amendments to existing federal mining laws, however, could have a prospective effect on mining operations on federal lands and include, among other changes, the imposition of royalty fees on the mining of unpatented claims, the elimination or restructuring of the patent system and an increase in fees for the maintenance of unpatented claims. To the extent that future proposals may result in the imposition of royalty fees on unpatented lands, the mining of our unpatented claims may become economically unfavorable. We cannot predict the form that any such amendments might take or whether or when such amendments might be adopted. In addition, the construction and operation of processing facilities on these sites would require the approval of federal,

state and local regulatory authorities. See Item 1A “Risk Factors” above for a discussion of other risks to our business related to our mining properties.

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MINING AND MANUFACTURING METHODS

Mining and Hauling

We mine clay in open-pit mines in Georgia, Mississippi, Illinois and California. The mining and hauling operations are similar throughout the Oil-Dri locations, with the exception of California. The land to be mined is first stripped. The stripping process involves removing the overburden and preparing the site to allow the excavators to reach the desired clay. When stripping is completed, the excavators dig out and load the clay onto dump trucks. The trucks haul the clay directly to our processing plants where it is dumped in a clay yard and segregated by clay type if necessary. Generally, the mine sites are in close proximity to the processing plants; however, the maximum distance the clay is currently hauled to a plant is approximately 13 miles.

At our California mines the clay is excavated and hauled to a hopper. An initial crushing and screening operation is performed at the mine site before the trucks are loaded for delivery to the processing plant.

Processing

The processing of our clay varies depending on the level of moisture desired in the clay after the drying process. The moisture level is referred to as regular volatile moisture (“RVM”) or low volatile moisture (“LVM”).

RVM Clay: A front end loader is used to load the clay from the clay yard into the primary crusher. The primary crusher reduces the clay chunks to 2.0 inches in diameter or smaller. From the crusher, the clay is transported via a belt conveyor into the clay shed. A clay shed loader feeds the clay into a disintegrator which reduces the clay to particles 0.5 inches in diameter or smaller. The clay then feeds directly into the RVM kiln. The RVM kiln reduces the clay’s moisture content. From the RVM kiln, the clay moves through a series of mills and screens which further size and separate the clay into the desired particle sizes. The sized clay is then conveyed into storage tanks. The RVM processed clay can then be packaged or processed into LVM material.

LVM Clay: RVM clay is fed from storage tanks into the LVM kiln where the moisture content is further reduced. The clay then proceeds into a rotary cooler, then on to a screening circuit which separates the clay into the desired particle sizes.

In addition, certain other products may go through further processing or the application of fragrances and additives. For example, certain fluid purification and animal health products are processed into a powder form. We also use a proprietary process for our engineered granules to create spherical, uniform-sized granules.

Packaging

Once the clay has been dried to the desired level it will be sized and packaged. Our products have package sizes ranging from bags, boxes and jugs of cat litter to railcars of agricultural products. We also package some of our products into bulk (approximately one ton) bags or into bulk trucks. The size and delivery configuration of our finished products is determined by customer requirements.

FACILITIES

We operate clay manufacturing and non-clay production facilities on property owned or leased by us as shown on the map below:

Oil-Dri Corporation of America Plant Site Locations

Location	Owned/Leased	Function
Alpharetta, Georgia	Leased	Non-clay manufacturing and packaging, sales, customer service
Bentonville, Arkansas	Leased	Sales office
Blue Mountain, Mississippi	Owned	Manufacturing and packaging
Chicago, Illinois	Leased	Principal executive office
Coppet, Switzerland	Leased	Customer service office
Laval, Quebec, Canada	Owned	Non-clay manufacturing and clay and non-clay packaging, sales
Mounds, Illinois	Owned	Manufacturing and packaging
Ochlocknee, Georgia	Owned	Manufacturing and packaging
Ripley, Mississippi	Owned	Manufacturing and packaging
Shenzhen, China	Leased	Sales office, customer service
Taft, California	Owned	Manufacturing and packaging
Vernon Hills, Illinois	Owned	Research and development
Wisbech, United Kingdom	Leased	Non-clay manufacturing and clay and non-clay packaging, sales, customer service

We have no mortgages on the real property we own. The lease for the Bentonville, Arkansas office lease expires in 2016. The leases for the Alpharetta, Georgia facility and the Shenzhen, China office all expire in 2018. The Wisbech, United Kingdom facility lease expires in 2032 and the Chicago, Illinois corporate office lease expires in 2033. The lease for the Coppet, Switzerland office is on a year-to-year basis. We consider that our properties are generally in good condition, well maintained and suitable and adequate to carry on our business.

ITEM 3 – LEGAL PROCEEDINGS

We are party to various legal actions from time to time that are ordinary in nature and incidental to the operation of our business. While it is not possible at this time to determine with certainty the ultimate outcome of these lawsuits, we believe that none of the pending proceedings will have a material adverse effect on our business or financial condition.

ITEM 4 – MINE SAFETY DISCLOSURE

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

PART II

ITEM 5 – MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is traded on the NYSE under the symbol ODC. There is no established trading market for our Class B Stock. There are no shares of Class A Common Stock currently outstanding. See Note 7 of the Notes to the Consolidated Financial Statements for a description of our Common Stock, Class B Stock and Class A Common Stock. The number of holders of record of Common Stock and Class B Stock on September 30, 2015 were 620 and 29, respectively, as reported by our transfer agent. In the last three years, we have not sold any securities which were not registered under the Securities Act of 1933.

The following table sets forth, for the periods indicated, the high and low sales price for our Common Stock listed on the NYSE and dividends per share declared on our Common Stock and Class B Stock.

	Common Stock Price Range		Cash Dividends Per Share	
	Low	High	Common Stock	Class B Stock
Fiscal Year 2015				
First Quarter	\$24.02	\$31.30	\$0.2000	\$0.1500
Second Quarter	\$26.60	\$32.93	0.2000	0.1500
Third Quarter	\$28.30	\$34.19	0.2000	0.1500
Fourth Quarter	\$25.92	\$33.44	0.2100	0.1575
Total			\$0.8100	\$0.6075
Fiscal Year 2014:				
First Quarter	\$30.35	\$36.80	\$0.1900	\$0.1425
Second Quarter	\$32.90	\$41.74	0.1900	0.1425
Third Quarter	\$31.24	\$36.27	0.1900	0.1425
Fourth Quarter	\$28.71	\$34.90	0.2000	0.1500
Total			\$0.7700	\$0.5775

Dividends. Our Board of Directors determines the timing and amount of any dividends. Our Board of Directors may change its dividend practice at any time. The declaration and payment of future dividends, if any, will depend upon, among other things, our future earnings, capital requirements, financial condition, legal requirements, contractual restrictions and other factors that our Board of Directors deems relevant. Our Credit Agreement with BMO Harris Bank N.A. (“BMO Harris”) and our 2005 Note Agreement require that certain minimum net worth and tangible net worth levels are to be maintained. To the extent that these balances are not attained, our ability to pay dividends may be impaired. See Note 4 of the Notes to the Consolidated Financial Statements for further information about our note agreements.

Issuer Repurchase of Equity Securities. Our Board of Directors authorized the repurchase of 250,000 shares of Common Stock on March 11, 2011 and authorized the repurchase of an additional 250,000 shares on June 14, 2012. These authorizations do not have a stated expiration date. As of July 31, 2015, a total of 305,968 shares of Common Stock may yet be repurchased under these authorizations. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock.

Equity Compensation Plan Information. The following table presents information about compensation plans under which our equity securities are authorized for issuance. See Note 8 of the Notes to the Consolidated Financial Statements for further information about these stock-based compensation plans.

Equity Compensation Plan Information As Of
July 31, 2015

	Number of securities to be issued upon exercise of outstanding options (in thousands)	Weighted-average exercise price of outstanding options	Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands)
Plan category	(a)	(b)	(c)
Equity compensation plans approved by stockholders	41	\$15.43	542

PERFORMANCE GRAPH

The following graph shows the annual cumulative total stockholders' return for the five years ending July 31, 2015 on an assumed investment of \$100 on July 31, 2010 in our Common Stock, the Russell Microcap Index and the Russell 2000-Material and Processing Economic Sector Index. Our Common Stock is included in the Russell Microcap Index and we consider the Russell 2000-Material and Processing Economic Sector Index to be our peer group. The graph assumes all dividends were reinvested. The historical stock price performance of our Common Stock is not necessarily indicative of future stock performance.

Comparative Five-Year Total Returns

Oil-Dri Corporation of America, Russell Microcap Index , Russell 2000-Materials & Processing Index

(Performance results through July 31, 2015)

	2010	2011	2012	2013	2014	2015
Oil-Dri Corporation	\$ 100.00	\$ 97.56	\$ 107.01	\$ 160.36	\$ 150.15	\$ 138.73
Russell Microcap	\$ 100.00	\$ 121.91	\$ 122.95	\$ 168.58	\$ 182.52	\$ 204.98
Russell 2000-Materials & Processing	\$ 100.00	\$ 130.11	\$ 122.13	\$ 165.77	\$ 182.92	\$ 179.51

This performance graph and accompanying disclosure is not soliciting material, is not deemed filed with the SEC, and is not incorporated by reference in any of our filings under the Securities Act or the Exchange Act, whether made on, before or after the date of this filing and irrespective of any general incorporation language in such filing.

ITEM 6 – SELECTED FINANCIAL DATA
 FIVE YEAR SUMMARY OF FINANCIAL DATA

(In thousands, except for per share amounts and ratios)

	Fiscal Year Ended July 31,					
	2015	2014	2013	2012	2011	
Summary of Operations						
Net Sales	\$261,402	\$266,313	\$250,583	\$240,681	\$226,755	
Cost of Sales	(201,245)	(206,663)	(184,084)	(181,676)	(176,715)	
Gross Profit	60,157	59,650	66,499	59,005	50,040	
Selling, General and Administrative Expenses	(45,004)	(47,232)	(47,558)	(47,303)	(36,331)	
Capacity Rationalization Charges (1)	—	—	(70)	(1,623)	—	
Income from Operations	15,153	12,418	18,871	10,079	13,709	
Other Income (Expense)						
Interest Income	13	23	34	31	61	
Interest Expense	(1,327)	(1,569)	(1,773)	(2,060)	(2,053)	
Foreign Exchange (Losses) Gains	(349)	35	(56)	(196)	(22)	
Other, Net	679	430	423	507	446	
Total Other Expense, Net	(984)	(1,081)	(1,372)	(1,718)	(1,568)	
Income before Income Taxes	14,169	11,337	17,499	8,361	12,141	
Income Taxes	(2,801)	(2,981)	(2,913)	(2,263)	(3,090)	
Net Income	\$11,368	\$8,356	\$14,586	\$6,098	\$9,051	
Average Shares Outstanding						
Diluted	7,037	7,004	6,927	7,062	7,103	
Net Income per Share						
Basic Common	\$1.73	\$1.27	\$2.25	\$0.92	\$1.36	
Basic Class B Common	\$1.30	\$0.96	\$1.69	\$0.70	\$1.06	
Diluted	\$1.59	\$1.17	\$2.07	\$0.85	\$1.26	
Important Highlights						
Total Assets	\$190,031	\$186,204	\$183,559	\$174,267	\$173,393	
Long-Term Debt	\$15,417	\$18,900	\$22,400	\$25,900	\$29,700	
Working Capital	\$53,755	\$54,016	\$71,925	\$66,080	\$65,336	
Working Capital Ratio	2.9	2.8	3.3	3.3	3.5	
Book Value per Share	\$15.85	\$14.94	\$14.96	\$12.19	\$13.63	
Dividends Declared	\$5,312	\$5,040	\$4,712	\$4,511	\$4,305	
Dividends Declared per Common Share	\$0.8100	\$0.7700	\$0.7300	\$0.6900	\$0.6500	
Dividends Declared per Class B Common Share	\$0.6075	\$0.5775	\$0.5475	\$0.5175	\$0.4875	
Capital Expenditures						
Capital Expenditures	\$15,859	\$18,566	\$9,795	\$6,960	\$13,806	
Depreciation and Amortization	\$11,994	\$10,396	\$8,946	\$9,272	\$8,473	
Return on Average Stockholders' Equity						
Net Income as a Percent of Net Sales	4.3	% 3.1	% 5.8	% 2.5	% 4.0	%
Return on Average Stockholders' Equity	10.6	% 8.1	% 15.5	% 6.8	% 9.7	%
Gross Profit as a Percent of Net Sales						
Gross Profit as a Percent of Net Sales	23.0	% 22.4	% 26.5	% 24.5	% 22.1	%
Operating Expenses as a Percent of Net Sales						
Operating Expenses as a Percent of Net Sales	17.2	% 17.7	% 19.0	% 20.3	% 16.0	%

(1) In fiscal years 2012 and 2013, one-time charges were incurred for the relocation of production of our industrial floor absorbent and cat litter products from our facility located in Mounds, Illinois to our plants located in Mississippi.

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ITEM 7 – 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 Consolidated Financial Statements and the related notes included elsewhere herein. 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 those discussed under “Forward-Looking Statements” and in Item 1A “Risk Factors” in this Annual Report on Form 10-K.

OVERVIEW

We develop, mine, manufacture and market sorbent products principally produced from clay minerals, primarily consisting of montmorillonite and attapulgite and, to a lesser extent, other clay-like sorbent materials, such as Antelope shale. Our principal products include agricultural and horticultural chemical carriers, animal health and nutrition products, cat litter, fluids purification and filtration bleaching clays, industrial and automotive floor absorbents and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end consumer and other customers who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable operating segments based on the different characteristics of our two primary customer groups: Retail and Wholesale Products Group and Business to Business Products Group. Each operating segment is discussed individually below. Additional detailed descriptions of the operating segments are included in Item 1 “Business” above.

Consolidated net income was \$11,368,000, or \$1.59 per diluted share, for the fiscal year ended July 31, 2015, a 36% increase from net income of \$8,356,000, or \$1.17 per diluted share, for the fiscal year ended July 31, 2014. Fiscal year 2015 provided both opportunities and challenges that resulted in net income growth despite reduced net sales. We benefited from reduced costs for advertising, freight and natural gas throughout the year. Packaging costs also trended lower at year end. Our private label cat litter experienced sales growth as we continued to build our presence in this market after the acquisition of MFM during fiscal year 2014 and with the introduction of a new private label lightweight scoopable product in fiscal year 2015. Sales also improved from the prior year for both our animal health and nutrition products and our agricultural chemical carrier products, while our branded cat litter sales were hindered by intense competition. Foreign sales were also negatively impacted by currency fluctuations and our fluids purification products contended with unfavorable edible oil crop characteristics. We devoted resources at our manufacturing facilities to introduce new branded and private label lightweight scoopable products in the second half of fiscal year 2015, which we believe will position us well in this expanding segment of the cat litter market.

We believe our balance sheet remains strong at the end of fiscal year 2015 with higher cash and cash equivalents, lower inventory and reduced debt. During the year we continued to invest in capital at our plants and to increase dividend payments. Our cash requirements are subject to change as business conditions warrant and opportunities arise.

RESULTS OF OPERATIONS

FISCAL YEAR 2015 COMPARED TO FISCAL YEAR 2014

CONSOLIDATED RESULTS

Consolidated net sales in fiscal 2015 were \$261,402,000, a 2% decrease from net sales of \$266,313,000 in fiscal year 2014. Net sales in our Retail and Wholesale Products Group declined as lower branded cat litter sales were partially offset by increased sales of private label cat litter and industrial floor absorbents. Net sales in our Business to Business Products Groups decreased as lower sales of fluids purification products outweighed higher sales of animal health and

agricultural chemical carrier products. See below for further discussion of these sales fluctuations by operating segment.

Consolidated gross profit as a percentage of net sales in fiscal year 2015 increased to 23% from 22% in fiscal year 2014. Gross profit increased due primarily to reduced freight costs and approximately a 26% decrease in the cost of natural gas used to operate kilns that dry our clay during processing. Freight costs declined due to lower diesel prices, better weather conditions and some relief from unfavorable industry regulations. Partially offsetting these cost declines were higher non-fuel manufacturing and packaging costs per ton. An approximate 5% increase in manufacturing costs per ton was driven by reduced fixed cost absorption due to fewer tons produced, as well as increased labor and depreciation costs. Depreciation costs increased as we continue to invest in machinery and equipment at our plants. A significant amount of our packaging purchases are subject to contractual price adjustments throughout the year based on related commodity prices, particularly for resin. Resin market price declines positively impacted our results in fiscal year 2015, particularly in the fourth quarter, but for the full year overall packaging costs per ton remained higher than fiscal year 2014, particularly for our Retail and Wholesale Products Group.

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Total selling, general and administrative expenses were lower in fiscal year 2015 compared to fiscal year 2014. Selling, general and administrative expenses as a percentage of net sales were 17% in fiscal year 2015 compared to 18% in fiscal year 2014. The discussions of each segment's operating income below describe the changes in selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in fiscal year 2015 included a higher estimated annual discretionary incentive plan bonus accrual as compared to the prior year. The incentive bonus expense was based on actual financial results achieved for the fiscal year and discretion by our Chief Executive Officer, in accordance with the bonus plan's provisions.

Our effective tax rate was 19.8% of pre-tax income in fiscal year 2015 compared to 26.3% in fiscal year 2014. During fiscal year 2015 we utilized domestic AMT credits and correspondingly decreased the related valuation allowance that had been established in prior years for the full amount of the deferred tax benefit related to the AMT credits used, which resulted in a lower federal income tax rate. In fiscal year 2014 we incurred additional AMT expense, which resulted in a higher comparable effective tax rate. See Note 6 of the Notes to the Consolidated Financial Statements for additional information about our income taxes.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for fiscal year 2015 were \$92,326,000, a decrease of \$1,960,000, or 2%, from net sales of \$94,286,000 in fiscal year 2014. Net sales of fluid purification products and co-packaged coarse cat litter decreased, while net sales of animal health and agricultural and horticultural products increased. Net sales and tons sold for fluid purification products were both down approximately 10% compared to fiscal year 2014. Usage of our product by edible oil producers declined due to natural variations in the quality and other characteristics of certain seed and bean crops. In addition, sales in foreign markets suffered due to the strength of the U.S. Dollar relative to various foreign currencies, which effectively increased the price of our product compared to foreign competitors' products. Our co-packaged coarse cat litter net sales decrease of approximately 7% reflected the continued decline in the coarse litter market. Partially offsetting these declines was an increase in net sales of approximately 18% for animal health and nutrition products, which was primarily attributed to sales by our subsidiary in China (Amlan Trading (Shenzhen) Company, Ltd.) that commenced operations in the fourth quarter of fiscal year 2014. In addition, sales increased approximately 12% for our agricultural and horticultural products. Sales increased for our agricultural chemical carrier products sold to producers of crop protection chemicals. Sales also increased for our engineered granule product used in the professional pesticides and agricultural markets.

The Business to Business Products Group's selling, general and administrative expenses in fiscal year 2015 decreased approximately 7% compared to fiscal year 2014. Lower sales of fluid purification products reduced commissions paid to outside distributors. Our subsidiary in China, which was fully operational during fiscal year 2015, incurred additional internal sales personnel costs but accordingly reduced external distributor commissions. One-time start up costs for the China subsidiary were incurred in fiscal year 2014.

The Business to Business Products Group's operating income was \$29,406,000 in fiscal year 2015, an increase of \$2,752,000, or 10%, from operating income of \$26,654,000 in fiscal year 2014. Operating income was positively impacted by a reduced cost per manufactured ton for natural gas used to operate kilns that dry our clay, as well as by lower selling general and administrative, freight and packaging costs. Increased non-fuel manufacturing costs negatively impacted the Group's operating income to a lesser extent. See further discussion of manufacturing, freight and packaging costs in "Consolidated Results" above.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal year 2015 were \$169,076,000, a decrease of \$2,951,000, or 2%, from net sales of \$172,027,000 in fiscal year 2014. Net sales declined for our cat litter products,

but increased for industrial absorbent products. Net sales of our foreign subsidiaries in Canada and the United Kingdom also declined, as described under “Foreign Operations” below. Overall cat litter net sales and tons sold were down compared to the prior year. Our branded cat litter net sales decrease of approximately 11% was attributed primarily to our competitors' introduction of new products, which were accompanied by increased advertising and aggressive price discounts. Our new Cat's Pride Fresh & Light Ultimate Care product was introduced in the second half of fiscal year 2015. Private label cat litter sales increased approximately 10%, due in part to the acquisition of MFM in fiscal year 2014 (additional MFM-related sales are included in the full fiscal year 2015 but in only three quarters of fiscal year 2014). See Note 2 of the Notes to the Consolidated Financial Statements for more information about the MFM acquisition. In addition, private label cat litter sales in fiscal year 2015 included new customers and our new lightweight private label product, which launched in the second half of fiscal year 2015. Branded and generic floor absorbent sales increased approximately 7% due primarily to increased volume.

Selling, general and administrative expenses for the Retail and Wholesale Products Group decreased approximately 15% compared to fiscal year 2014 due primarily to lower advertising expenses, which were partially offset by higher amortization expense for intangible assets related to the MFM acquisition.

The Retail and Wholesale Products Group's segment operating income for fiscal year 2015 was \$5,206,000, an increase of \$1,638,000, or 46%, from operating income of \$3,568,000 in fiscal year 2014. Operating income was positively impacted by a reduced cost per manufactured ton for natural gas used to operate kilns that dry our clay, as well as by lower selling general and administrative and freight costs. Increased non-fuel manufacturing costs negatively impacted the Group's operating income to a lesser extent. See further discussion of manufacturing and freight costs in "Consolidated Results" above.

FOREIGN SUBSIDIARIES

Foreign operations include our subsidiaries in Canada and the United Kingdom, which is included in the Retail and Wholesale Products Group, and our subsidiary in China, which is included in the Business to Business Products Group. Net sales by our foreign subsidiaries during fiscal year 2015 were \$11,025,000, a decrease of \$221,000, or 2%, from net sales of \$11,246,000 during fiscal year 2014. Net sales by our foreign subsidiaries represented 4% of our consolidated net sales during fiscal year 2015. Lower sales for our Canada and the United Kingdom subsidiaries were substantially offset by higher sales for China subsidiary. Strong competition and loss of a private label customer contributed to lower sales of cat litter by our subsidiary in Canada. Unfavorable currency exchange rates contributed to lower demand for industrial absorbents in export markets of our United Kingdom subsidiary. Our China subsidiary was operational for the full year of fiscal 2015, with sales reported only in the fourth quarter of fiscal year 2014.

For fiscal year 2015, our foreign subsidiaries reported a net loss of \$1,261,000, compared to a net loss of \$708,000 in fiscal year 2014. The net loss increased due primarily to a greater reported loss at our new subsidiary in China, which is still growing its share in the China market, and foreign currency exchange losses upon translation of financial results to reported U.S. Dollars. In addition, both our United Kingdom and Canadian subsidiaries incurred higher costs for items purchased from the United States due to the weakness of their respective local currencies compared to the U.S. Dollar. A reduction in selling, general and administrative expense for our Canadian subsidiary helped moderate the increase in net losses.

Identifiable assets of our foreign subsidiaries as of July 31, 2015 were \$7,762,000 compared to \$8,143,000 as of July 31, 2014. The decrease was primarily due to lower fixed assets and cash, which were partially offset by higher inventories.

RESULTS OF OPERATIONS

FISCAL YEAR 2014 COMPARED TO FISCAL YEAR 2013

CONSOLIDATED RESULTS

Consolidated net sales in fiscal 2014 were \$266,313,000, a 6% increase from net sales of \$250,583,000 in fiscal year 2013. Net sales in our Retail and Wholesale Products Group increased due to more tons sold, including additional sales after the acquisition of MFM, and net sales in our Business to Business Products Group increased due to higher net selling prices and a favorable product sales mix (defined as a greater proportion of sales from higher priced products).

Consolidated gross profit as a percentage of net sales in fiscal year 2014 decreased to 22% from 27% in fiscal year 2013. Gross profit declined due primarily to the increased costs of packaging and freight, as described by operating segment below, and due to higher material costs per ton, which included a 21% increase in the cost of natural gas used to operate kilns that dry our clay during processing. Material costs also included a 4% increase in non-fuel manufacturing cost per ton, which was attributed to higher purchased material costs, including purchased additives,

fragrances and other materials required for the production of scoopable cat litters, as well as higher costs for labor and increased mining and hauling activity. We continued to pursue operational efficiencies as we integrated the additional volume gained through the acquisition of MFM. Our mining and hauling operations were impacted by the increased volume and by extraction of clay reserves that required more overburden removal. In addition, gross profit was impacted by increased sales of private label cat litter, which generally has a lower gross profit margin than branded cat litter.

Selling, general and administrative expenses as a percentage of net sales were 18% in fiscal year 2014, compared to 19% in fiscal year 2013. The discussions of each segment's operating income below describe the changes in selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in fiscal year 2014 included a lower estimated annual discretionary incentive plan bonus accrual and lower pension expense, which were partially offset by an increase in expense for the supplemental employee retirement plan ("SERP"). The incentive bonus expense was based on performance targets that are established for each fiscal year and discretionary authority by our Chief Executive

Officer. See Notes 9 and 10 of the Notes to the Consolidated Financial Statements for additional information about the pension plan and the SERP, respectively.

Our effective tax rate was 26.3% of pre-tax income in fiscal year 2014 compared to 16.6% in fiscal year 2013. Our tax rate in fiscal year 2014 was consistent with the three years preceding fiscal year 2013. During fiscal year 2013 we utilized domestic AMT credits, which resulted in a lower federal income tax rate; however, in fiscal year 2014 we incurred additional AMT expense. See Note 6 of the Notes to the Consolidated Financial Statements for additional information about our income taxes.

Consolidated net income for fiscal year 2014 was \$8,356,000, a 43% decrease from net income of \$14,586,000 in fiscal year 2013. The decrease in net income was attributed primarily to increased costs for materials, packaging, freight and advertising, which more than offset the impact of increased sales and lower overall non-advertising selling, general and administrative costs. Segment operating income was lower for both our Business to Business and Retail and Wholesale Products Groups as discussed below.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for fiscal year 2014 were \$94,286,000, an increase of \$1,317,000, or 1%, from net sales of \$92,969,000 in fiscal year 2013. Net sales of both fluid purification and animal health products increased, while net sales of co-packaged cat litter and agricultural and horticultural products decreased. Net sales of fluid purification products were approximately 7% greater than in fiscal year 2013 with a 4% increase in tons sold. Sales increased primarily to edible oil processors in both foreign and domestic markets driven by continued global growth in the demand for edible oil. Net sales of animal health and nutrition products increased slightly in both domestic and foreign markets due primarily to a favorable product sales mix, which offset the impact of 13% fewer tons sold. A sales decline of approximately 9% for our agricultural and horticultural products resulted primarily from 10% fewer tons sold. Sales decreased for our agricultural chemical carrier products used by producers of corn rootworm pesticides and other crop protection chemicals. Partially offsetting this decline was improved sales for our engineered granule product used in the professional pesticides and agricultural markets. A small decrease in sales of our co-packaged traditional coarse cat litter net sales was attributed primarily to 2% fewer tons sold.

The Business to Business Products Group's selling, general and administrative expenses in fiscal year 2014 increased approximately 18% compared to fiscal year 2013 due primarily to additional personnel and other costs incurred to expand sales of our animal health and nutrition products in foreign markets.

The Business to Business Products Group's operating income was \$26,654,000 in fiscal year 2014, a decrease of \$4,085,000, or 13%, from operating income of \$30,739,000 in fiscal year 2013. A combined 8% increase in materials, packaging and freight costs per ton more than offset the higher sales described above. Material costs rose due primarily to a higher price paid for natural gas used to operate kilns that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in "Consolidated Results" above. Packaging costs rose as the result of supplier price increases and the mix of products sold. Freight costs increases were driven primarily by more shipments to foreign countries and cost increases in the freight industry attributed to recent trends and regulations.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal year 2014 were \$172,027,000, an increase of \$14,413,000, or 9%, from net sales of \$157,614,000 in fiscal year 2013. Net sales increased significantly for cat litter products and increased slightly for both industrial absorbent and sports products; however, net sales decreased for our foreign subsidiaries. Our foreign subsidiaries' net sales are described under "Foreign Operations" below. Overall cat litter net sales increased approximately 13%. The benefits of higher sales volume was partially offset by higher trade

spending (trade spending is deducted from net sales and includes coupons, slotting and cooperative marketing programs). Our branded cat litter net sales increased approximately 10% due primarily to more tons sold and higher selling prices that outweighed increased trade spending. Net sales of our Cat's Pride Fresh & Light scoopable products increased approximately 33% and sales also improved for our other Cat's Pride scoopable cat litters. These increases were partially offset by lower sales for our branded coarse litter products. Private label cat litter net sales increased approximately 24% due in part to additional sales from the acquisition of MFM. (See Note 2 of the Notes to the Consolidated Financial Statements for more information about the MFM acquisition.)

Selling, general and administrative expenses for the Retail and Wholesale Products Group increased approximately 15% compared to fiscal year 2013 due primarily to increased advertising expense, amortization of intangible assets acquired in the MFM acquisition and higher sales commissions.

The Retail and Wholesale Products Group's segment operating income for fiscal year 2014 was \$3,568,000, a decrease of \$6,993,000, or 66%, from operating income of \$10,561,000 in fiscal year 2013. A combined cost increase of approximately 4% per ton for packaging, freight and materials and higher selling, general and administrative expenses, as discussed below, more than offset the benefits of higher sales described above. Packaging costs were up due to the mix of products produced and commodity price increases, including resin used in cat litter jugs and pails. The increase in freight costs were driven primarily by our service level enhancement efforts and cost increases in the freight industry attributed to recent trends and regulations. Material costs rose due primarily to a higher price paid for natural gas used to operate kilns that dry our clay and increases in other non-fuel manufacturing costs. See further discussion of manufacturing costs in "Consolidated Results" above.

FOREIGN SUBSIDIARIES

Net sales by our foreign subsidiaries during fiscal year 2014 were \$11,246,000, a decrease of \$682,000, or 6%, from net sales of \$11,928,000 during fiscal year 2013. Net sales by our foreign subsidiaries represented 4% of our consolidated net sales during fiscal year 2014. Net sales declined for our Canadian subsidiary, but increased for our United Kingdom subsidiary. In addition, our new China subsidiary reported initial sales in the fourth quarter of fiscal year 2014. Our Canadian subsidiary continued to face strong competition for branded cat litter sales. Sales of fluids purification products provided higher sales for our United Kingdom subsidiary.

For fiscal year 2014, our foreign subsidiaries reported a net loss of \$708,000, compared to a net loss of \$176,000 in fiscal year 2013. The increase in the net loss was primarily the result of lower sales and expenditures to commence operations for the China subsidiary.

Identifiable assets of our foreign subsidiaries as of July 31, 2014 were \$8,143,000 compared to \$8,298,000 as of July 31, 2013. The decrease was primarily due to lower lower accounts receivable and net fixed assets, which were partially offset by higher deferred income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, purchasing and upgrading equipment, facilities and real estate, investing in infrastructure and acquisitions. We have principally 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 totaled \$20,138,000, \$16,230,000 and \$24,035,000 at July 31, 2015, 2014 and 2013, respectively.

The following table sets forth certain elements of our Consolidated Statements of Cash Flows for the fiscal year (in thousands):

	2015	2014	2013
Net cash provided by operating activities	\$26,976	\$16,296	\$23,366
Net cash used in investing activities	(14,246)	(15,570)	(19,018)
Net cash used in financing activities	(8,743)	(8,372)	(7,450)
Effect of exchange rate changes on cash and cash equivalents	(79)	(159)	44
Net increase (decrease) in cash and cash equivalents	\$3,908	\$(7,805)	\$(3,058)

Net cash provided by operating activities

Net cash provided by operations was \$26,976,000 for fiscal year 2015 compared to \$16,296,000 for fiscal year 2014. In addition to net income, as adjusted for depreciation and amortization and other non-cash operating activities,

the primary sources and uses of operating cash flows for fiscal years 2015 and 2014 were as follows:

Accounts receivable, less allowance for doubtful accounts, were \$469,000 higher at fiscal year-end 2015 compared to fiscal year-end 2014. Accounts receivable, less allowance for doubtful accounts and cash discounts, were \$151,000 lower at fiscal year-end 2014 compared to fiscal year-end 2013. These moderate fluctuations in accounts receivable balances were attributed to timing of both sales and collections, as well as the payment terms provided to various customers.

Inventories were \$3,114,000 lower at fiscal year-end 2015 compared to fiscal year-end 2014. The decrease is primarily attributed to concerted efforts to better manage finished goods and packaging inventory levels relative to sales requirements and efforts to reduce costs. Inventories were \$2,966,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. Increased finished goods and packaging inventory at fiscal year-end 2014 were the result of both higher costs and increased quantities on hand.

Prepaid expenses were \$2,455,000 lower at fiscal year-end 2015 compared to fiscal year-end 2014 due primarily to a decrease in prepaid income taxes and a reclassification of prepaid rents and royalties to other long-term assets. Prepaid expenses were \$1,988,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 due primarily to an increase in prepaid income taxes and new plant assets with a short-term expected life.

Other assets were \$1,287,000 higher at fiscal year-end 2015 compared to fiscal year-end 2014. The increase was due primarily to the reclassification of prepaid rents and royalties from current prepaid expenses, which was partially offset by a decrease in the cash surrender value of life insurance on key employees due to the closing of two policies. Other assets were \$817,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. The increase was due to higher cash surrender value of life insurance on former key employees and a long-term warranty obtained on certain leased plant assets.

Accounts payable were \$571,000 higher at fiscal year-end 2015 compared to fiscal year-end 2014 due primarily to higher income taxes payable, which was partially offset by lower trade and freight payables. Accounts payable were \$187,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 due primarily to increased costs of purchased materials, which was partially offset by lower income taxes payable. Changes in trade accounts payable in all periods are subject to normal fluctuations in the timing of payments.

Accrued expenses were \$697,000 lower at fiscal year-end 2015 compared to fiscal year-end 2014. Accrued expenses for fiscal year 2015 declined due primarily to payments on leased equipment at our plants and lower accrued freight and other expenses, which were partially offset by a higher discretionary annual bonus accrual. In addition, the trade promotions and advertising accrual was higher at fiscal year-end 2015. Accrued expenses were \$2,586,000 lower at fiscal year-end 2014 compared to fiscal year-end 2013. Accrued expenses for fiscal year 2014 declined due primarily to the lower discretionary annual bonus accrual. In addition, the trade promotions and advertising accrual was lower at fiscal year-end 2014. These decreases were partially offset by a new lease obligation for assets at our plants. Changes in other accrued expenses in all periods related to ongoing operations are also subject to normal fluctuations in the timing of payments.

Deferred compensation was \$251,000 higher at fiscal year-end 2015 compared to fiscal year-end 2014 and was \$698,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. Employee deferrals and interest on accumulated deferred compensation balances exceeded payouts in both years. The SERP accrual also increased in both years. See Note 10 of the Notes to the Consolidated Financial Statements for more information regarding our deferred compensation plans.

Pension and other postretirement liabilities, net of the adjustment recorded in stockholders' equity, were \$814,000 higher at fiscal year-end 2015 compared to fiscal year-end 2014 and were \$2,887,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. An updated mortality table and a slightly lower discount rate required for the actuarial calculation of postretirement benefit obligations resulted in a higher liability at fiscal year-end 2015 compared to fiscal year-end 2014. At fiscal year-end 2014, a significantly lower discount rate and the use of an updated mortality scale resulted in a significantly higher liability compared to fiscal year-end 2013. See Note 9 of the Notes to the Consolidated Financial Statements for more information regarding our postretirement benefit plans.

Net cash used in investing activities

Cash used in investing activities was \$14,246,000 in fiscal year 2015, \$15,570,000 in fiscal year 2014 and \$19,018,000 in fiscal year 2013. During fiscal year 2015, cash proceeds of \$903,000 were received from the closing of two life insurance policies on former key employees. Capital expenditures of \$15,859,000 in fiscal year 2015 included new processing and packaging equipment, as well as equipment replacement at our manufacturing facilities. During fiscal year 2014, \$12,876,000 was used for the acquisition of certain assets of MFM, plus an additional \$129,000 was classified as restricted cash held in escrow as of July 31, 2014. Capital expenditures in fiscal year 2014 of \$18,566,000 included capacity expansion projects and mining equipment at our manufacturing facilities. Also in fiscal 2014, cash provided by dispositions of short-term investments exceeded purchases by \$15,821,000. During fiscal year 2013, capital expenditures of \$9,795,000 included new machinery and equipment replacement at our manufacturing facilities. In addition, in fiscal year 2013 cash used for purchases of short-term investments exceeded dispositions by \$9,289,000. Purchases and dispositions of investment securities in all periods are subject to variations in the timing of investment maturities.

Net cash used in financing activities

Cash used in financing activities was \$8,743,000 in fiscal year 2015, \$8,372,000 in fiscal year 2014 and \$7,450,000 in fiscal year 2013. The primary uses of cash in all periods were payments on long-term debt and dividend payments, which increased each year. In addition, cash was received from issuance of Common Stock and treasury stock related to stock option exercises in each year.

Other

Total cash and investment balances held by our foreign subsidiaries at July 31, 2015, 2014 and 2013 were \$1,150,000, \$1,481,000 and \$1,413,000, respectively. Cash and investment balances fluctuated due to normal business operations. See further discussion in the “Foreign Operations” section above.

On December 4, 2014, we signed a fourth amendment to our credit agreement with BMO Harris, to extend the term to December 4, 2019. The new agreement provides for a \$25,000,000 unsecured revolving credit agreement, including a maximum of \$5,000,000 for foreign letters of credit. The remaining terms are substantially unchanged from our previous agreement with BMO Harris, including the provision that we may select a variable rate based on either the BMO Harris prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. At July 31, 2015, the variable rates would have been 3.25% for BMO Harris’ prime-based rate or 1.29% for LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of July 31, 2015 and 2014, there were no outstanding borrowings under this credit facility and we were in compliance with its covenants.

See Note 4 of the Notes to the Consolidated Financial Statements for information about our outstanding debt.

We believe that cash flow from operations, availability under our revolving credit facility, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, dividend payments and debt service obligations for at least the next 12 months. Our cash requirements are subject to change as business conditions warrant and opportunities arise. We continually evaluate our liquidity position and anticipated cash needs, as well as the financing options available to obtain additional cash reserves. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements, including, but not limited to, the current credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

Our capital requirements are subject to change as business conditions warrant and opportunities arise. The following tables summarize our significant contractual obligations and commercial commitments as of July 31, 2015 and the effect such obligations are expected to have on liquidity and cash flows in future periods:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-Term Debt	\$ 18,900,000	\$ 3,483,000	\$ 6,167,000	\$ 6,167,000	\$ 3,083,000
Interest on Long-Term Debt	2,220,000	683,000	987,000	489,000	61,000

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Operating Leases	4,993,000	1,402,000	2,495,000	593,000	503,000
Total Contractual Cash Obligations	\$26,113,000	\$5,568,000	\$9,649,000	\$7,249,000	\$3,647,000

During fiscal year 2015, we made contributions of approximately \$1,790,000 to our defined benefit pension plan. We have not presented this obligation for future years in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets, actuarial assumptions and regulations. See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below for certain information regarding the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Other Commercial Commitments	\$29,827,000	\$29,827,000	\$—	\$—	\$—

The obligations above are open purchase orders primarily for packaging and other ingredients used in our products. The expected timing of payments of these obligations was 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.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities. As of July 31, 2015 we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management’s discussion and analysis of the financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with the generally accepted accounting principles of the United States. We review our financial reporting and disclosure practices and accounting policies annually to ensure that our financial reporting and disclosures provide accurate and transparent information relative to current economic and business environment. We believe that of our significant accounting policies stated in Note 1 of the Notes to the Consolidated Financial Statements, the policies listed below involve a higher degree of judgment and/or complexity. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates include income taxes, promotional programs, pension accounting and allowance for doubtful accounts. Actual results could differ from these estimates.

Income Taxes. Our effective tax rate was based on expected income, statutory tax rates and tax planning opportunities available to us in various jurisdictions in which we operate. Significant judgment was required in determining our effective tax rate and in evaluating our tax positions.

We determine our current and deferred taxes in accordance with ASC 740 Income Taxes. The tax effect of the expected reversal of tax differences was recorded at rates currently enacted for each jurisdiction in which we operate. To the extent that temporary differences will result in future tax benefit, we must estimate the timing of their reversal and whether taxable operating income in future periods will be sufficient to fully recognize any deferred tax assets.

We maintain valuation allowances where it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could affect the realization of deferred tax assets. For example, certain factors, such as depletion and the cost of fuel used in our manufacturing process, are difficult to predict and have a significant impact on our ability to use the deferred tax benefit related to our AMT credit

carryforwards. We recorded valuation allowances for income taxes of \$2,210,000 and \$3,459,000 at July 31, 2015 and 2014, respectively, for the full amount of the deferred tax benefit related to our AMT credit and foreign net operating loss carryforwards since we believe it is more likely than not that the benefit of these tax attributes will not be realized.

In addition to valuation allowances, we may provide for uncertain tax positions when such tax positions do not meet certain recognition thresholds or measurement standards. Amounts for uncertain tax positions are adjusted when new information becomes available or when positions are effectively settled. We did not record a liability for unrecognized tax benefits at either July 31, 2015 or 2014. See Note 6 of the Notes to the Consolidated Financial Statements for further discussion.

Trade Promotions. We routinely commit to one-time or ongoing trade promotion programs in our Retail and Wholesale Products Group. Promotional reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. All such trade promotion costs are netted against sales. Promotional reserves are established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. To estimate trade promotion reserves, we rely on our historical experience with trade spending patterns and that of the industry, current trends and forecasted data. While we believe our promotional reserves are reasonable and that appropriate judgments have been made, estimated amounts could differ from future obligations. We have accrued liabilities at the end of each period for the estimated trade spending programs. We recorded liabilities of approximately \$2,427,000 and \$2,044,000 for trade promotions at July 31, 2015 and 2014, respectively.

Pension and Postretirement Benefit Costs. We calculate our pension and postretirement health benefit obligations and the related effects on results of operations using actuarial models. To measure the expense and obligations, we must make a variety of estimates including critical assumptions for the discount rate used to value certain liabilities and the expected return on plan assets set aside to fund these costs. We evaluate these critical assumptions at least annually. Other assumptions involving demographic factors, such as retirement age, mortality and turnover, are evaluated periodically and are updated to reflect actual experience. As these assumptions change from period to period, recorded pension and postretirement health benefit amounts and funding requirements could also change. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

The discount rate is the rate assumed to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. The discount rate is subject to change each year. We refer to an applicable index and the expected duration of the benefit payments to select a discount rate at which we believe the benefits could be effectively settled. The discount rate was the single equivalent rate that would yield the same present value as the plan's expected cash flows discounted with spot rates on a yield curve of investment-grade corporate bonds. The yield curve used in both fiscal years 2015 and 2014 was the Citigroup Pension Discount Curve. Our determination of pension expense or income is based on a market-related valuation of plan assets, which is the fair market value. Our expected rate of return on plan assets is determined based on asset allocations and historical experience. The expected long-term rate of inflation and risk premiums for the various asset categories are based on general historical returns and inflation rates. The target allocation of assets is used to develop a composite rate of return assumption. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

Trade Receivables. We recognize trade receivables when the risk of loss and title pass to the customer. We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific accounts. A customer account is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. We believe our allowance for doubtful accounts is reasonable; however, the unanticipated default by a customer with a material trade receivable could occur. We also record an estimated allowance for cash discounts offered in our payment terms to some customers. We recorded a total allowance for doubtful accounts and cash discounts of \$761,000 and \$707,000 at July 31, 2015 and 2014, respectively.

Inventories. We value inventories at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a detailed review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales divisions to ensure that both historical issues and new market trends are considered. The obsolescence reserve not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at July 31, 2015 and 2014 were

\$521,000 and \$390,000, respectively.

Reclamation. During the normal course of our mining process we remove overburden and perform on-going reclamation activities. As overburden is removed from a mine site, it is hauled to a previously mined site and used to refill older sites. This process allows us to continuously reclaim older mine sites and dispose of overburden simultaneously, therefore minimizing the costs associated with the reclamation process. On an annual basis we evaluate our potential reclamation liability in accordance with ASC 410, Asset Retirement and Environmental Obligations. As of July 31, 2015 and 2014, we have recorded an estimated net reclamation asset of \$813,000 and \$677,000, respectively, and a corresponding estimated reclamation liability of \$1,666,000 as July 31, 2015 and \$1,429,000 as of July 31, 2014. These values represent the discounted present value of the estimated future mining reclamation costs at the production plants. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge over the estimated useful lives of the mines.

Accounting for reclamation obligations requires that we make estimates unique to each mining operation of the future costs we will incur to complete the reclamation work required to comply with existing laws and regulations. Actual future costs incurred could significantly differ from estimated amounts. Future changes to environmental laws could increase the extent of reclamation work required. Any such increases in future costs could materially impact the amount incurred for reclamation costs.

Impairment of goodwill, trademarks and other intangible assets. We review carrying values of goodwill, trademarks and other indefinite-lived intangible assets periodically for possible impairment in accordance ASC 350, Intangibles – Goodwill and Other. Our impairment review requires significant judgment with respect to factors such as volume, revenue and expenses. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is usually performed in the first quarter of the fiscal year and may be re-performed when deemed necessary due to indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts. Our impairment analysis performed in both the first and fourth quarters of fiscal year 2015 did not indicate any impairment. We continue to monitor events, circumstances or changes in the business that might imply a reduction in value and might lead to impairment.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

The tangible property regulations (“repair regulations”) released by the Internal Revenue Service in September 2013 under Sections 162(a) and 263(a) of the Internal Revenue Code were effective for our tax year beginning August 1, 2014. The repair regulations provide guidance regarding the timing of deductions and the capitalization of amounts paid to acquire, produce or improve tangible property. We believe our accounting policies comply with the requirements of the repair regulations and there is no material impact on our Consolidated Financial Statements.

Recently Issued Accounting Standards and Regulations

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance under the Accounting Standards Codification (“ASC”) 606, Revenue from Contract with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Transition options include either a full or modified retrospective approach and early adoption is permitted. The implementation date for this guidance was recently deferred and will now be effective at the beginning of our first quarter of fiscal year 2019. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

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

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

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

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to foreign currency fluctuation risk, primarily the U.S. Dollar relative to the British Pound, Euro, Canadian Dollar, Chinese Yuan Renminbi and the Brazilian Real, as related to our foreign subsidiaries, to certain accounts receivable, and to our ability to sell in foreign markets. We are subject to translation exposure of our foreign subsidiaries' financial statements from local currencies to U.S. Dollars. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated net sales or net income. In addition, the portion of our consolidated accounts receivable denominated in foreign currencies has not been significant. Finally, foreign sales of our products may be influenced by the relative strength of the U.S. dollar compared to various other currencies, which makes our products relatively more or less expensive than our foreign competitors' products in local marketplaces. Foreign currency fluctuations had some bearing on our operating results in fiscal year 2015; however, historically the overall foreign currency fluctuation risk has not been material to our Consolidated Financial Statements. During fiscal year 2015, we did not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates.

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

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

We are exposed to commodity price risk with respect to fuel. Factors that could influence the cost of natural gas used in the kilns to dry our clay include the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, general supply and demand for natural gas, seasonality and the weather patterns throughout the United States and the world. We monitor fuel market trends and we may contract for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. As of July 31, 2015, we have purchased no natural gas contracts for our planned kiln fuel needs for fiscal year 2016. We continue to purchase natural gas at spot rates on a month to month basis.

Please also see Item 1A "Risk Factors" above for a discussion of these and other risks and uncertainties we face in our business.

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

	July 31, 2015	2014
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$20,138	\$16,230
Restricted cash	—	129
Short-term investments	2,190	2,640
Accounts receivable, less allowance of \$761 and \$707 in 2015 and 2014, respectively	31,466	30,997
Inventories	21,369	24,483
Deferred income taxes	2,468	1,570
Prepaid repairs expense	3,813	3,722
Prepaid expenses and other assets	1,199	3,745
Total Current Assets	82,643	83,516
Property, Plant and Equipment		
Buildings and leasehold improvements	28,518	28,557
Machinery and equipment	127,399	120,081
Office furniture and equipment	10,689	10,244
Vehicles	12,330	12,099
Gross depreciable assets	178,936	170,981
Less accumulated depreciation and amortization	(129,929)	(124,199)
Net depreciable assets	49,007	46,782
Construction in progress	14,188	11,759
Land and mineral rights	16,460	16,355
Total Property, Plant and Equipment, Net	79,655	74,896
Other Assets		
Goodwill	9,034	9,034
Trademarks and patents, net of accumulated amortization of \$301 and \$420 in 2015 and 2014, respectively	818	660
Debt issuance costs, net of accumulated amortization of \$133 and \$522 in 2015 and 2014, respectively	146	243
Licensing agreements and non-compete agreements, net of accumulated amortization of \$1,145 in 2014	—	155
Customer list, net of accumulated amortization of \$2,094 and \$764 in 2015 and 2014, respectively	5,691	7,020
Deferred income taxes	6,031	4,448
Other	6,013	6,232
Total Other Assets	27,733	27,792
Total Assets	\$190,031	\$186,204

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

	July 31, 2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable	\$3,483	\$3,500
Accounts payable	7,428	7,352
Dividends payable	1,376	1,311
Accrued expenses		
Salaries, wages and commissions	6,245	4,448
Trade promotions and advertising	2,721	2,182
Freight	1,874	2,504
Other	5,761	8,203
Total Current Liabilities	28,888	29,500
Noncurrent Liabilities		
Notes payable	15,417	18,900
Deferred compensation	9,518	9,267
Pension and postretirement benefits	23,429	22,273
Other	2,251	1,956
Total Noncurrent Liabilities	50,615	52,396
Total Liabilities	79,503	81,896
Stockholders' Equity		
Common Stock, par value \$.10 per share, issued 7,936,343 shares in 2015 and 7,917,393 shares in 2014	794	792
Class B Stock, convertible, par value \$.10 per share, issued 2,389,735 shares in 2015 and 2,394,735 shares in 2014	239	239
Additional paid-in capital	33,563	33,130
Restricted unearned stock compensation	(931)	(2,225)
Retained earnings	142,095	136,039
Accumulated Other Comprehensive (Loss) Income		
Unrealized gain on marketable securities	—	114
Pension and postretirement benefits	(8,975)	(8,632)
Cumulative translation adjustment	(270)	255
Total Accumulated Other Comprehensive Loss	(9,245)	(8,263)
Less treasury stock, at cost (2,932,796 Common and 324,741 Class B shares in 2015 and 2,915,651 Common and 324,741 Class B shares in 2014)	(55,987)	(55,404)
Total Stockholders' Equity	110,528	104,308
Total Liabilities and Stockholders' Equity	\$190,031	\$186,204

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended July 31,		
	2015	2014	2013
	(in thousands, except for per share data)		
Net Sales	\$261,402	\$266,313	\$250,583
Cost of Sales	(201,245)	(206,663)	(184,084)
Gross Profit	60,157	59,650	66,499
Selling, General and Administrative Expenses	(45,004)	(47,232)	(47,558)
Capacity Rationalization Charges	—	—	(70)
Income from Operations	15,153	12,418	18,871
Other Income (Expense)			
Interest income	13	23	34
Interest expense	(1,327)	(1,569)	(1,773)
Foreign exchange (loss) gain	(349)	35	(56)
Other, net	679	430	423
Total Other Expense, Net	(984)	(1,081)	(1,372)
Income Before Income Taxes	14,169	11,337	17,499
Income Taxes	(2,801)	(2,981)	(2,913)
Net Income	\$11,368	\$8,356	\$14,586
Net Income Per Share			
Basic Common	\$1.73	\$1.27	\$2.25
Basic Class B Common	\$1.30	\$0.96	\$1.69
Diluted	\$1.59	\$1.17	\$2.07
Average Shares Outstanding			
Basic Common	4,955	4,981	4,909
Basic Class B Common	2,019	2,001	1,970
Diluted	7,037	7,004	6,927

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended July 31,			
	2015	2014	2013	
	(in thousands)			
Net Income	\$11,368	\$8,356	\$14,586	
Other Comprehensive (Loss) Income:				
Unrealized (loss) gain on marketable securities	(114) 28	14	
Pension and postretirement benefits (net of tax)	(343) (3,024) 5,983	
Cumulative translation adjustment	(525) (232) (86)
Other Comprehensive (Loss) Income	(982) (3,228) 5,911	
Comprehensive Income	\$10,386	\$5,128	\$20,497	

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Shares		(in thousands)		Retained Earnings	Restricted Unearned Stock Compensation	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Common & Class B Stock	Treasury Stock	Common & Class B Stock	Additional Paid-In Capital					
Balance, July 31, 2012	10,161,100	(3,236,305)	\$1,016	\$29,759	\$122,901	\$(2,214)	\$(55,208)	\$(10,946)	\$85,308
Net Income			—	—	14,586	—	—	—	14,586
Other Comprehensive (Loss) Income			—	—	—	—	—	5,911	5,911
Dividends Declared			—	—	(4,712)	—	—	—	(4,712)
Purchases of Treasury Stock		(8,253)	—	—	—	—	(175)	—	(175)
Net Issuance of Stock Under Long-Term Incentive Plans	99,947	5,250	10	1,289	(25)	(474)	87	—	887
Share-based Compensation			—	269	—	—	—	—	269
Amortization of Restricted Stock			—	—	—	864	—	—	864
Balance, July 31, 2013	10,261,047	(3,239,308)	\$1,026	\$31,317	\$132,750	\$(1,824)	\$(55,296)	\$(5,035)	\$102,938
Net Income			—	—	8,356	—	—	—	8,356
Other Comprehensive (Loss) Income			—	—	—	—	—	(3,228)	(3,228)
Dividends Declared			—	—	(5,040)	—	—	—	(5,040)
Purchases of Treasury Stock		(2,584)	—	—	—	—	(87)	—	(87)
Net Issuance of Stock Under Long-Term Incentive Plans	51,081	1,500	5	1,727	(27)	(1,590)	(21)	—	94
Share-based Compensation			—	86	—	—	—	—	86
Amortization of Restricted Stock			—	—	—	1,189	—	—	1,189
Balance, July 31, 2014	10,312,128	(3,240,392)	\$1,031	\$33,130	\$136,039	\$(2,225)	\$(55,404)	\$(8,263)	\$104,308
Net Income			—	—	11,368	—	—	—	11,368
Other Comprehensive (Loss) Income			—	—	—	—	—	(982)	(982)
			—	—	(5,312)	—	—	—	(5,312)

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Dividends Declared									
Purchases of Treasury Stock		(3,645)	—	—	—	—	(122)	—	(122)
Net Issuance of Stock Under Long-Term Incentive Plans	13,950	(13,500)	2	356	—	152	(461)	—	49
Share-based Compensation			—	77	—	—	—	—	77
Amortization of Restricted Stock			—	—	—	1,142	—	—	1,142
Balance, July 31, 2015	10,326,078	(3,257,537)	\$1,033	\$33,563	\$142,095	\$(931)	\$(55,987)	\$(9,245)	\$110,528

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year-Ended July 31,		
	2015	2014	2013
	(in thousands)		
Cash Flows from Operating Activities			
Net Income	\$11,368	\$8,356	\$14,586
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,994	10,396	8,946
Amortization of investment discounts	(1)	(2)	(7)
Non-cash stock compensation expense	1,142	1,189	864
Excess tax benefits for share-based payments	(77)	(86)	(268)
Deferred income taxes	(2,450)	284	(398)
Provision for bad debts and cash discounts	177	69	64
Loss on the sale of property, plant and equipment	191	452	8
Gain on sale of marketable securities	(105)	—	—
Life insurance benefits	(117)	—	—
Capacity rationalization charges	—	—	70
(Increase) decrease in:			
Accounts receivable	(646)	82	(984)
Inventories	3,114	(2,966)	(1,050)
Prepaid expenses	2,455	(1,988)	1,416
Other assets	(1,287)	(817)	(1,025)
Increase (decrease) in:			
Accounts payable	571	187	135
Accrued expenses	(697)	(2,586)	2,159
Deferred compensation	251	698	452
Pension and postretirement benefits	814	2,887	(1,896)
Other liabilities	279	141	294
Total Adjustments	15,608	7,940	8,780
Net Cash Provided by Operating Activities	26,976	16,296	23,366
Cash Flows from Investing Activities			
Capital expenditures	(15,859)	(18,566)	(9,795)
Proceeds from sale of property, plant and equipment	22	180	66
Acquisition of business	—	(12,876)	—
Restricted cash	129	(129)	—
Purchases of short-term investments	(2,890)	(10,391)	(34,439)
Dispositions of short-term investments	3,341	26,212	25,150
Proceeds from sale of marketable securities	108	—	—
Proceeds from life insurance	903	—	—
Net Cash Used in Investing Activities	(14,246)	(15,570)	(19,018)
Cash Flows from Financing Activities			
Principal payments on notes payable	(3,500)	(3,500)	(3,800)
Dividends paid	(5,247)	(4,965)	(4,630)
Purchase of treasury stock	(122)	(87)	(175)
Proceeds from issuance of treasury stock	—	82	82
Proceeds from issuance of common stock	49	12	805
Excess tax benefits for share-based payments	77	86	268
Net Cash Used in Financing Activities	(8,743)	(8,372)	(7,450)
Effect of exchange rate changes on cash and cash equivalents	(79)	(159)	44

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Net Increase (Decrease) in Cash and Cash Equivalents	3,908	(7,805)	(3,058)
Cash and Cash Equivalents, Beginning of Year	16,230	24,035	27,093
Cash and Cash Equivalents, End of Year	\$20,138	\$16,230	\$24,035

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CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(in thousands)

	Year-Ended July 31,		
	2015	2014	2013
	(in thousands)		
Supplemental disclosure:			
Cash paid for:			
Interest, net of amounts capitalized	\$826	\$1,078	\$1,351
Income taxes	\$2,339	\$3,022	\$5,064
Noncash investing and financing activities:			
Capital expenditures accrued, but not paid	\$223	\$712	\$529
Cash dividends declared and accrued, but not paid	\$1,376	\$1,311	\$1,236

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

We are a leader in developing, manufacturing and/or marketing sorbent products. Our sorbent products are principally produced from clay minerals. Our absorbent clay products include cat litter, industrial floor absorbents, agricultural chemical carriers and enterosorbents used in animal feed. Our adsorbent products include synthetic sorbents, which are used for industrial cleanup, and bleaching clay products, which are used for filtration of edible oils and for purification of petroleum-based oils.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Oil-Dri Corporation of America and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated from the Consolidated Financial Statements.

MANAGEMENT USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

SHORT-TERM INVESTMENTS

Short-term investments as of both July 31, 2015 and 2014 were comprised of certificates of deposits with maturities of one year or less. We intend and have the ability to hold these investments to maturity; therefore, these investments are reported at amortized cost.

TRADE RECEIVABLES

We recognize trade receivables when the risk of loss and title pass to the customer. We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific accounts. A customer account is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. We retain outside collection agencies to facilitate our collection efforts. Past due status is determined based on contractual terms and customer payment history.

INVENTORIES

We value inventories at the lower of cost (first-in, first-out) or market. We recorded inventory obsolescence reserves of approximately \$521,000 and \$390,000 as of July 31, 2015 and 2014, respectively. The composition of inventories

was as follows as of July 31 (in thousands):

	2015	2014
Finished goods	\$12,117	\$14,326
Packaging	4,735	5,402
Other	4,517	4,755
Inventories	\$21,369	\$24,483

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated to U.S. Dollars at the exchange rates in effect at period end. Income statement items are translated at the average exchange rate on a monthly basis. Resulting translation adjustments are recorded as a separate component of stockholders' equity.

INTANGIBLE ASSETS AND GOODWILL

We amortize most of our intangible assets on a straight-line basis over periods ranging from ten to 20 years. Our customer list intangible asset, related to the acquisition of certain assets of MFM, is amortized at an accelerated amortization rate in the earlier years to reflect the expected pattern of decline in the related benefits over time. Intangible amortization was \$1,642,000 in fiscal year 2015 and \$1,107,000 in fiscal year 2014. We have some intangible assets that were determined to have indefinite lives and are not amortized, specifically one acquired trademark recorded at \$376,000.

Our estimated intangible amortization expense for the next five fiscal years is as follows (in thousands):

2016	\$1,451
2017	\$1,222
2018	\$1,013
2019	\$826
2020	\$656

The weighted average amortization period of our intangible assets subject to amortization is as follows (in years):

	Weighted Average Amortization Period
Trademarks and patents	3.9
Debt issuance costs	5.1
Customer list	8.3
Total intangible assets subject to amortization	8.1

We periodically review indefinite-lived intangibles and goodwill to assess for impairment. Our review is based on cash flow considerations and other approaches that require significant judgment with respect to volume, revenue and expenses. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is generally performed in the first quarter of the fiscal year and when indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts indicate that an asset may become impaired. There has been no impairment from this analysis for fiscal years 2015, 2014 or 2013.

OVERBURDEN REMOVAL AND MINING COSTS

We mine sorbent materials on property that we either own or lease as part of our overall operations. A significant part of our overall mining cost is incurred during the process of removing the overburden from the mine site, thus exposing the sorbent material used in a majority of our production processes. These stripping costs are treated as a variable inventory production cost and are included in cost of sales in the period they are incurred. Stripping costs included in cost of sales were approximately \$2,939,000, \$4,179,000, and \$2,187,000 for fiscal years 2015, 2014 and 2013, respectively. The increased stripping costs in fiscal year 2014 reflected more tons mined and extraction of clay reserves that required more overburden removal. We defer and amortize the pre-production overburden removal costs associated with opening a new mine. No pre-production overburden removal costs were deferred in the last two fiscal years.

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 rights, including legal fees and drilling expenses, are also capitalized. The amount of land and mineral rights included in land on the Consolidated Balance Sheets were approximately \$13,285,000 and \$2,165,000, respectively, as of July 31, 2015 and \$13,348,000 and \$2,165,000, respectively, as of July 31, 2014. Pre-production development costs on new mines and any prepaid royalties that may be offset against future royalties due upon extraction of the mineral are also capitalized. Prepaid royalties included in current prepaid expenses and in non-current other assets on the Consolidated Balance Sheets were approximately \$1,068,000 and \$1,052,000 as of July 31, 2015 and 2014, respectively. No

capitalized pre-production development costs were recorded in the last two fiscal years. All exploration related costs are expensed as incurred.

RECLAMATION

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

On an annual basis we evaluate our potential reclamation liability in accordance with ASC 410, Asset Retirement and Environmental Obligations. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge over the estimated useful lives of the mines.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are generally depreciated using the straight-line method over their estimated useful lives which are listed below. Major improvements and betterments are capitalized, while maintenance and repairs that do not extend the useful life of the applicable assets are expensed as incurred.

	Years	
Buildings and leasehold improvements	3	- 39
Machinery and equipment		
Packaging	2	- 20
Processing	2	- 25
Mining and Other	3	- 15
Office furniture, computers and equipment	2	- 12
Vehicles	3	- 15

Depreciation expense was \$10,352,000, \$9,289,000 and \$8,603,000 in fiscal years 2015, 2014 and 2013, respectively.

Property, plant and equipment are carried at cost on the Consolidated Balance Sheets and are reviewed for possible impairment on an annual basis. We take into consideration idle and underutilized equipment and review business plans for possible impairment. When impairment is indicated, an impairment charge is recorded for the difference between the carrying value of the asset and its fair market value. There was no impairment recorded in fiscal years 2015, 2014 or 2013.

TRADE PROMOTIONS

We routinely commit to one-time or ongoing trade promotion programs, primarily in our Retail and Wholesale Products Group. All such costs are netted against sales. We have accrued liabilities at the end of each period for the estimated expenses incurred but not yet paid for these programs. Promotional reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. We use judgment for estimates to determine our trade spending liabilities. We rely on our historical experience with trade spending patterns and that of the industry, current trends and forecast data.

ADVERTISING

Advertising costs for the development of printed materials, television commercials, web-based digital banners, web-based social media and sales videos are deferred and expensed upon the first use of the materials, unless such amounts are immaterial. Costs paid for communicating advertising over a period of time, such as television air time, radio commercials and print media advertising space, are deferred and expensed on a pro-rata basis. All other advertising costs, including participation in industry conventions and shows and market research, are expensed when incurred. All advertising costs are part of selling, general and administrative expenses.

Advertising expenses were approximately \$5,154,000, \$8,886,000, and \$7,975,000 in fiscal years 2015, 2014 and 2013, respectively. Advertising expense was lower in fiscal year 2015 as we refocused our promotional efforts for our branded cat litter.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Non-derivative financial instruments included in the Consolidated Balance Sheets are cash and cash equivalents, short-term investments and notes payable. These instruments, except for notes payable, were carried at amounts approximating fair value as of July 31, 2015 and 2014. Short-term investments were certificates of deposits which we intend and have the ability to hold to maturity; therefore, these investments were reported at amortized cost, which was approximately equal to fair value. See Note 5 of the Notes to the Consolidated Financial Statements for additional information regarding the fair value of notes payable, as well as assets and liabilities recorded at fair value.

REVENUE RECOGNITION

We recognize revenue when risk of loss and title are transferred under the terms of our sales agreements with customers at a fixed and determinable price and collection of payment is probable. Taxes collected from customers and remitted to governmental authorities are excluded from net sales. Sales returns and allowances are not material.

COST OF SALES

Cost of sales consists of all manufacturing costs, including depreciation and amortization related to assets used in the manufacturing and distribution process, inbound and outbound freight, inspection costs, purchasing costs associated with materials and packaging used in the production process and warehouse and distribution costs.

SHIPPING AND HANDLING COSTS

Shipping and handling costs are included in cost of sales and were approximately \$46,292,000, \$49,456,000 and \$45,002,000 for fiscal years 2015, 2014 and 2013, respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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.

RESEARCH AND DEVELOPMENT

Research and development costs of approximately \$2,809,000, \$2,587,000 and \$2,620,000 were charged to expense as incurred for fiscal years 2015, 2014 and 2013, respectively.

PENSION AND POSTRETIREMENT BENEFIT COSTS

We provide a defined benefit pension plan for eligible salaried and hourly employees and we make contributions to fund the plan. We also provide a postretirement health benefit plan to domestic salaried employees who qualify under the plan's provisions. The postretirement health benefit plan is unfunded. Our pension and postretirement health benefit plans are accounted for using actuarial valuations required by ASC 715, Compensation – Retirement Benefits. The funded status of our defined pension and postretirement health benefit plans are recognized on the Consolidated Balance Sheets. Changes in the funded status that arise during the period but are not recognized as components of net periodic benefit cost are recognized within other comprehensive income, net of income tax. See Note 9 of the Notes to the Consolidated Financial Statements for additional information.

STOCK-BASED COMPENSATION

We account for stock options and restricted stock issued under our long term incentive plans in accordance with ASC 718, Compensation – Stock Compensation. The fair value of stock-based compensation is determined at the grant date. The related compensation expense is recognized over the appropriate vesting period. See Note 8 of the Notes to the Consolidated Financial Statements for additional information.

INCOME TAXES

Deferred income tax assets and liabilities are recorded for the impact of temporary differences between the tax basis of assets and liabilities and the amounts recognized for financial reporting purposes. Deferred tax assets are reviewed and a valuation

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allowance is established if management believes that it is more likely than not that some portion of our deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change.

In addition to existing valuation allowances, we provide for uncertain tax positions, if necessary, when such tax positions do not meet the recognition thresholds or measurement standards prescribed by ASC 740, Income Taxes. Amounts for uncertain tax positions are adjusted when new information becomes available or when positions are effectively settled. We recognize interest and penalties accrued related to uncertain tax positions in income tax (benefit) expense.

U.S. income tax expense and foreign withholding taxes are provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. Where unremitted foreign earnings are indefinitely reinvested, no provision for federal or state tax expense is recorded. When circumstances change and we determine that some or all of the undistributed earnings will be remitted in the foreseeable future, a corresponding expense is accrued in the current period. See Note 6 of the Notes to the Consolidated Financial Statements for additional information about income taxes.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

The repair regulations released by the Internal Revenue Service in September 2013 under Sections 162(a) and 263(a) of the Internal Revenue Code were effective for our tax year beginning August 1, 2014. The repair regulations provide guidance regarding the timing of deductions and the capitalization of amounts paid to acquire, produce or improve tangible property. We believe our accounting policies comply with the requirements of the repair regulations and there is no material impact on our Consolidated Financial Statements.

Recently Issued Accounting Standards and Regulations

In May 2014, the FASB issued guidance under ASC 606, Revenue from Contract with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Transition options include either a full or modified retrospective approach and early adoption is permitted. The implementation date for this guidance was recently deferred and will now be effective at the beginning of our first quarter of fiscal year 2019. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

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

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

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

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NOTE 2 – ACQUISITION

On November 1, 2013, for \$12,505,000 in cash we acquired certain assets of MFM, a company engaged in the manufacturing, marketing and distribution of primarily private label cat litter. This transaction qualified as a business combination for accounting purposes, therefore the assets acquired were recorded at their respective estimated fair values at the date of acquisition. The purchase price was allocated to: goodwill, all of which is related to our Retail and Wholesale Products Group segment and is deductible for tax purposes (\$3,872,000); customer list intangible asset (\$7,784,000); inventories (\$664,000); equipment (\$300,000); and other current assets (\$130,000). We also recorded a contingent liability of \$500,000 for the amount deposited in an escrow account, which represented our maximum obligation for expenses to prepare and sell the real property retained by MFM. In addition, we recorded a contingent receivable of \$255,000, which represented the estimated amount we would receive upon the sale of the real property retained by MFM. During fiscal year 2015, we recorded net expense of \$113,000 upon settlement of both the contingent liability and receivable. This expense is included in selling, general and administrative expenses on the Consolidated Statements of Operations.

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

	For the Twelve Months Ended July 31,	
	2014	2013
Proforma net sales	\$271,279	\$271,453
Proforma net income	\$7,834	\$13,387
Proforma net income per share - Basic Common	\$1.19	\$2.06
Proforma net income per share - Basic Class B	\$0.90	\$1.55
Proforma net income per share - Diluted	\$1.11	\$1.90

NOTE 3 – OPERATING SEGMENTS

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

Sales to Walmart and its affiliates accounted for approximately 18%, 19% and 20% of our total net sales for fiscal years 2015, 2014 and 2013, respectively. Walmart is a customer in our Retail and Wholesale Products Group segment. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales; however, sales to Clorox (a customer in our Business to Business Products Group) and its affiliates accounted for approximately 6% of total net sales for each of fiscal years 2015 and 2014, and 7% of total net sales for fiscal year 2013.

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 the Note 1 of the Notes to the Consolidated Financial Statements.

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 represents certain unallocated expenses, including primarily salaries, wages and

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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.

	July 31,		
	2015	2014	2013
	Assets (in thousands)		
Business to Business Products	\$55,767	\$53,823	\$53,721
Retail and Wholesale Products	96,043	95,712	76,376
Unallocated Assets	38,221	36,669	53,462
Total Assets	\$190,031	\$186,204	\$183,559

	Year Ended July 31,			Income		
	2015	2014	2013	2015	2014	2013
	Net Sales (in thousands)					
Business to Business Products	\$92,326	\$94,286	\$92,969	\$29,406	\$26,654	\$30,739
Retail and Wholesale Products	169,076	172,027	157,614	5,206	3,568	10,561
Total Sales	\$261,402	\$266,313	\$250,583			
Corporate Expenses				(19,459)	(17,804)	(22,359)
Capacity Rationalization Charges				—	—	(70)
Income from Operations				15,153	12,418	18,871
Total Other Expense, Net				(984)	(1,081)	(1,372)
Income before Income Taxes				14,169	11,337	17,499
Income Taxes				(2,801)	(2,981)	(2,913)
Net Income				\$11,368	\$8,356	\$14,586

The following is a summary by fiscal year of financial information by geographic region (in thousands):

	2015	2014	2013
Sales to unaffiliated customers by:			
Domestic operations	\$250,377	\$255,067	\$238,655
Foreign subsidiaries	\$11,025	\$11,246	\$11,928
Sales or transfers between geographic areas:			
Domestic operations	\$5,606	\$4,285	\$4,624
Income (Loss) before income taxes:			
Domestic operations	\$15,389	\$12,209	\$17,744
Foreign subsidiaries	\$(1,220)	\$(872)	\$(245)
Net Income (Loss):			
Domestic operations	\$12,629	\$9,064	\$14,762
Foreign subsidiaries	\$(1,261)	\$(708)	\$(176)
Identifiable assets:			
Domestic operations	\$182,269	\$178,061	\$175,261
Foreign subsidiaries	\$7,762	\$8,143	\$8,298

Our largest customer accounted for the following percentage of consolidated net sales and net accounts receivable:

	2015	2014	2013
Net sales for the years ended July 31	18%	19%	20%
Net accounts receivable as of July 31	27%	28%	30%

NOTE 4 – NOTES PAYABLE

The composition of notes payable is as follows as of July 31 (in thousands):

	2015	2014
Senior notes payable in annual principal installments on August 1: \$3,083 in each fiscal year 2016 through 2021. Interest is payable semiannually at an annual rate of 3.96%	\$ 18,500	\$ 18,500
Senior notes mature on October 15, 2015. Interest is payable semiannually at an annual rate of 5.89%	400	3,900
Total notes payable	18,900	22,400
Less current maturities of notes payable	(3,483)	(3,500)
Noncurrent notes payable	\$ 15,417	\$ 18,900

We issued senior promissory notes in November 2010 for \$18,500,000 and in December 2005 for \$15,000,000. All note agreements provided that the proceeds could be used to fund future principal payments on debt, acquisitions, stock repurchases, and capital expenditures and for working capital purposes. Both note agreements contain certain covenants that restrict our ability and the ability of certain of our subsidiaries to, among other things, (i) incur liens, (ii) incur indebtedness, (iii) merge or consolidate, (iv) sell assets, (v) sell stock of those certain subsidiaries, (vi) engage in business that would change the general nature of the business we are engaged in, and (vii) enter into transactions other than on “arm's length” terms with affiliates. The note agreements also require a minimum fixed coverage ratio and a minimum consolidated net worth to be maintained.

On December 4, 2014, we signed a fourth amendment to our credit agreement with BMO Harris, to extend the term to December 4, 2019. The new agreement provides for a \$25,000,000 unsecured revolving credit agreement, including a maximum of \$5,000,000 for foreign letters of credit. The remaining terms are substantially unchanged from our previous agreement with BMO Harris, including the provision that we may select a variable rate based on either BMO Harris' prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. At July 31, 2015, the variable rates would have been 3.25% for the BMO Harris' prime-based rate or 1.29% for the LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of July 31, 2015 and 2014, there were no outstanding borrowings under this credit agreement.

Our debt agreements also contain provisions such that if we default on one debt agreement, the others will automatically default. If we default on any guaranteed debt with a balance greater than \$1,000,000, our unsecured revolving credit agreement with BMO Harris will be considered in default. If we default on any debt with a balance greater than \$5,000,000 we will also be considered in default with the senior promissory notes.

We were in compliance with all restrictive covenants and limitations at July 31, 2015.

The following is a schedule by fiscal year of future maturities of notes payable as of July 31, 2015 (in thousands):

2016	\$ 3,483
2017	3,083
2018	3,084
2019	3,083
2020	3,084
Later years	3,083
	\$ 18,900

NOTE 5 – FINANCIAL INSTRUMENTS

Fair Value

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.

Categories in the hierarchy are as follows:

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

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

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

Level 3: Financial assets and liabilities whose values are based on valuation techniques that require inputs that are 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 reported at fair value by level within the fair value hierarchy (in thousands):

	Fair Value at July 31, 2015 Level 1	Fair Value at July 31, 2014 ¹ Level 1
Assets		
Cash equivalents	\$9,297	\$5,728
Marketable equity securities	\$—	\$117

¹ We identified an error in the amounts previously disclosed for cash equivalents in this footnote in fiscal year 2014. The fiscal year 2014 amount reported as cash equivalents included the amount of unrestricted cash and was therefore overstated by \$10,502,000. This amount has been revised in the table above. The disclosure error is considered immaterial, individually and in the aggregate, to the previously reported consolidated financial statements as of and for the year ended July 31, 2014.

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. This amount is included in cash and cash equivalents on the Consolidated Balance Sheets.

Marketable equity securities were valued using quoted market prices in active markets and as such are classified as Level 1 in the fair value hierarchy. We owned stock in one publicly traded company at July 31, 2014, which was included in other noncurrent assets on the Consolidated Balance Sheets. The stock was sold during fiscal year 2015.

Short-term investments on the Consolidated Balance Sheets include certificates of deposit. We intend and have the ability to hold our short-term investments to maturity; therefore, these investments were reported at amortized cost on the Consolidated Balance Sheets, which approximated fair value as of July 31, 2015 and 2014, and these balances are excluded from the above table.

Accounts receivable and accounts payable balances on the Consolidated Balance Sheets approximate their fair values at July 31, 2015 and 2014 due to the short maturity and nature of those balances; therefore, these balances are excluded from the above table.

Notes payable on the Consolidated Balance Sheets are carried at the face amount of future maturities and are excluded from the above table. The estimated fair value of notes payable was approximately \$20,476,000 as of July 31, 2015 and \$23,940,000 as of July 31, 2014. Our debt does not trade on a daily basis in an active market, therefore the fair value of notes payable was

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estimated based on market observable borrowing rates currently available for debt with similar terms and average maturities and is classified as Level 2.

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash, short-term investments and accounts receivable. Our cash is held in banks which are covered by the Federal Deposit Insurance Corporation; however, our cash balances are in excess of the maximum amount that is insured. Our short-term investments are placed in government-backed instruments and with other high quality institutions. Concentrations of credit risk with respect to accounts receivable are subject to the financial condition of certain major customers, principally the customer referred to in Note 3 of the Notes to the Consolidated Financial Statements. We generally do not require collateral to secure customer receivables; however, we require letters of credit for some foreign customers or we purchase insurance to reduce our risk.

NOTE 6 – INCOME TAXES

The provision for income tax expense (benefit) by fiscal year consists of the following (in thousands):

	2015	2014	2013
Current			
Federal	\$4,296	\$1,267	\$5,446
Foreign	(40)	63	19
State	1,081	308	578
Current Income Tax Total	5,337	1,638	6,043
Deferred			
Federal	(2,242)	1,381	(2,984)
Foreign	68	(215)	(88)
State	(362)	177	(58)
Deferred Income Tax Total	(2,536)	1,343	(3,130)
Total Income Tax Expense	\$2,801	\$2,981	\$2,913

Principal reasons for variations between the statutory federal rate and the effective rates by fiscal year were as follows:

	2015	2014	2013
U.S. federal income tax rate	35.0 %	34.0 %	34.0 %
Depletion deductions allowed for mining	(9.5)	(12.2)	(9.7)
State income tax expense, net of federal tax expense	3.4	2.8	2.9
Difference in effective tax rate of foreign subsidiaries	2.2	0.9	(0.8)
Empowerment zone credits	—	(0.5)	(0.5)
Valuation allowance (decrease) increase	(11.7)	3.2	(7.8)
Other	0.4	(1.9)	(1.5)
Effective income tax rate	19.8 %	26.3 %	16.6 %

We utilized approximately \$1,658,000 and \$1,369,000 of our domestic AMT credit carryforwards in fiscal years 2015 and 2013, respectively, based on the amount and composition of our taxable earnings and various tax attributes. We correspondingly decreased the related valuation allowance that had been established in prior years for the full amount of the deferred tax benefit related to the AMT credits used, thereby significantly reducing our effective income tax rate. In fiscal year 2014, we added approximately \$693,000 to our domestic AMT credit carryforwards and correspondingly increased the related valuation allowance.

The Consolidated Balance Sheets included the following tax effects of cumulative temporary differences as of July 31 (in thousands):

	2015		2014	
	Assets	Liabilities	Assets ¹	Liabilities ¹
Depreciation	\$—	\$6,749	\$—	\$7,332
Deferred compensation	3,936	—	3,733	—
Postretirement benefits	8,242	—	7,651	—
Allowance for doubtful accounts	237	—	303	—
Deferred marketing expenses	—	19	—	10
Other assets	41	—	—	84
Accrued expenses	1,949	—	1,289	—
Tax credits	1,545	—	2,872	—
Amortization	37	—	—	229
Inventories	512	—	453	—
Depletion	—	473	—	488
Stock-based compensation	162	—	248	—
Reclamation	283	—	141	—
Other assets – foreign	1,006	—	930	—
Valuation allowance	(2,210)) —	(3,459)) —
Total deferred taxes	\$15,740	\$7,241	\$14,161	\$8,143

¹ We identified an error in the amounts previously disclosed in this footnote in fiscal year 2014 related to domestic deferred taxes credits. The fiscal year 2014 amounts reported as Tax credits and Valuation allowance were both overstated by \$514,000 as previously reported and have been revised in the table above. The disclosure error is considered immaterial, individually and in the aggregate, to the previously reported consolidated financial statements as of and for the year ended July 31, 2014.

As of July 31, 2015, we had a total of approximately \$2,210,000 of AMT credit and foreign net operating loss carryforwards, which can be carried forward indefinitely or until utilized. A number of factors determine whether or not we will be able to utilize these tax attributes. For example, certain factors, such as depletion and the cost of fuel used in our manufacturing process, have a significant impact on our ability to use the deferred tax benefit related to our AMT credit carryforwards. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could affect the realization of deferred tax assets. We believe it is more likely than not that we will not realize a benefit from the carryforwards; therefore, a valuation allowance has been established for the full amount of the deferred tax benefit related to the AMT credits and the foreign net operating loss.

Our foreign subsidiary in the United Kingdom has not generated any untaxed foreign income, therefore we have not provided for any related income taxes.

As of July 31, 2015, we had no liability for unrecognized tax benefits (“UTBs”) based on tax positions related to the current and prior fiscal years. Reconciliations of the beginning and ending amount of UTBs by fiscal year were as follows (in thousands):