OIL DRI CORP OF AMERICA
Form 10-Q
December 09, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended October 31, 2008

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 0-8675

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

Delaware (State or other jurisdiction of incorporation or organization)	36-2048898 (I.R.S. Employer Identification No.)
410 North Michigan Avenue, Suite 400 Chicago, Illinois (Address of principal executive offices)	60611-4213 (Zip Code)

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

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

Yes þ No ¨

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer (Do not check if a smaller reporting company)	¨	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 þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock – 5,111,224 Shares
Class B Stock – 1,914,797 Shares

CONTENTS

FORWARD-LOOKING STATEMENTS

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

Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2008, which risk factors are incorporated herein by reference. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions, or otherwise.

TRADEMARK NOTICE

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

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	October 31, 2008	July 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ **1,308**	$ 6,848
Investment in securities	**15,463**	20,916
Accounts receivable, less allowance of $644 and $614 at October 31, 2008 and July 31, 2008, respectively	**32,763**	31,383
Inventories	**19,833**	17,744
Deferred income taxes	**890**	890
Prepaid expenses and other assets	**5,379**	4,870
Total Current Assets	**75,636**	82,651
Property, Plant and Equipment		
Cost	**157,796**	155,934
Less accumulated depreciation and amortization	**(105,019)**	(104,494)
Total Property, Plant and Equipment, Net	**52,777**	51,440
Other Assets		
Goodwill	**5,162**	5,162
Trademarks and patents, net of accumulated amortization of $356 and $349 at October 31, 2008 and July 31, 2008, respectively	**734**	733
Debt issuance costs, net of accumulated amortization of $544 and $525 at October 31, 2008 and July 31, 2008, respectively	**319**	338
Licensing agreements and non-compete agreements, net of accumulated amortization of $3,083 and $2,987 at October 31, 2008 and July 31, 2008, respectively	**1,656**	1,752
Deferred income taxes	**2,112**	2,048
Other	**4,746**	4,864
Total Other Assets	**14,729**	14,897
Total Assets	$ **143,142**	$ 148,988

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

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

	October 31, 2008	July 31, 2008
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable	$ 1,700	$ 5,580
Accounts payable	7,365	7,491
Dividends payable	917	919
Accrued expenses:		
Salaries, wages and commissions	3,008	5,578
Trade promotions and advertising	2,436	2,126
Freight	2,185	2,345
Other	6,208	6,062
Total Current Liabilities	23,819	30,101
Noncurrent Liabilities		
Notes payable	21,300	21,500
Deferred compensation	5,634	5,498
Other	4,489	4,263
Total Noncurrent Liabilities	31,423	31,261
Total Liabilities	55,242	61,362
Stockholders' Equity		
Common Stock, par value $.10 per share, issued 7,404,200 shares at October 31, 2008 and 7,392,475 shares at July 31, 2008	740	739
Class B Stock, par value $.10 per share, issued 2,239,538 shares at October 31, 2008 and 2,239,538 shares at July 31, 2008	224	224
Additional paid-in capital	22,447	22,218
Restricted unearned stock compensation	(599)	(674)
Retained earnings	107,199	105,966
Accumulated Other Comprehensive Income		
Unrealized gain on marketable securities	52	68
Pension and postretirement benefits	(109)	(121)
Cumulative translation adjustment	(162)	612
	129,792	129,032
Less Treasury Stock, at cost (2,292,976 Common and 324,741 Class B shares at October 31, 2008 and 2,261,942 Common and 324,741 Class B shares at July 31, 2008)	(41,892)	(41,406)
Total Stockholders' Equity	87,900	87,626
Total Liabilities & Stockholders' Equity	$ 143,142	$ 148,988

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

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

	For The Three Months Ended October 31 2008	2007
Net Sales	**$ 63,128**	$ 55,285
Cost of Sales	**(50,752)**	(42,855)
Gross Profit	**12,376**	12,430
Selling, General and Administrative Expenses	**(8,738)**	(8,860)
Income from Operations	**3,638**	3,570
Other Income (Expense)		
Interest expense	**(505)**	(547)
Interest income	**165**	368
Other, net	**(221)**	62
Total Other Income (Expense), Net	**(561)**	(144)
Income Before Income Taxes	**3,077**	3,426
Income taxes	**(831)**	(942)
Net Income	**2,246**	2,484
Retained Earnings		
Balance at beginning of year	**105,966**	100,503
Cash dividends declared and treasury stock issuances	**(1,013)**	(843)
Retained Earnings – October 31	**$ 107,199**	$ 102,144
Net Income Per Share		
Basic Common	**$ 0.34**	$ 0.38
Basic Class B	**$ 0.27**	$ 0.31
Diluted	**$ 0.31**	$ 0.35
Average Shares Outstanding		
Basic Common	**5,128**	5,004
Basic Class B	**1,862**	1,840
Diluted	**7,245**	7,145

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

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

	For The Three Months Ended October 31			
		2008		**2007**
Net Income	**$**	**2,246**	$	2,484
Other Comprehensive Income:				
Unrealized (loss) gain on marketable securities		**(16)**		26
Pension and postretirement benefits		**12**		6
Cumulative translation adjustment		**(774)**		447
Total Comprehensive Income	**$**	**1,468**	$	2,963

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

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

	For The Three Months Ended October 31	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 2,246**	$ 2,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**1,885**	1,862
Amortization of investment discount	**(75)**	(248)
Non-cash stock compensation expense	**159**	245
Excess tax benefits for share-based payments	**(61)**	(158)
Deferred income taxes	**(11)**	21
Provision for bad debts	**37**	59
Loss on the sale of fixed assets	**1**	37
(Increase) Decrease in:		
Accounts receivable	**(1,417)**	295
Inventories	**(2,089)**	(2,299)
Prepaid expenses	**(509)**	(654)
Other assets	**(1,081)**	514
Increase (Decrease) in:		
Accounts payable	**(118)**	296
Accrued expenses	**(2,274)**	(2,606)
Deferred compensation	**136**	92
Other liabilities	**589**	64
Total Adjustments	**(4,828)**	(2,480)
Net Cash (Used in) Provided by Operating Activities	**(2,582)**	4
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(3,552)**	(2,147)
Proceeds from sale of property, plant and equipment	**8**	—
Purchases of investment securities	**(28,972)**	(30,208)
Dispositions of investment securities	**34,500**	26,000
Net Cash Provided by (Used in) Investing Activities	**1,984**	(6,355)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	**(4,080)**	(80)
Dividends paid	**(919)**	(834)
Purchase of treasury stock	**(644)**	—
Proceeds from issuance of treasury stock	**63**	—
Proceeds from issuance of common stock	**83**	593
Excess tax benefits for share-based payments	**61**	158
Other, net	**(331)**	158
Net Cash Used in Financing Activities	**(5,767)**	(5)
Effect of exchange rate changes on cash and cash equivalents	**825**	(407)

Net Decrease in Cash and Cash Equivalents		**(5,540)**		(6,763)
Cash and Cash Equivalents, Beginning of Year		**6,848**		12,133
Cash and Cash Equivalents, October 31	**$**	**1,308**	$	5,370

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

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OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES
Notes To Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the consolidated financial statements and related notes for the year ended July 31, 2008 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three months ended October 31, 2008 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2009.

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

Under the terms of our sales agreements with customers, we recognize revenue when title is transferred. Upon shipment an invoice is generated that sets the fixed and determinable price. Promotional reserves are provided for sales incentives made directly to consumers and customers and are netted against sales. Sales returns and allowances have historically not been material. Selling, general and administrative expenses include salaries, wages and benefits associated with staff outside the manufacturing and distribution functions, all marketing related costs, any miscellaneous trade spending expenses not required to be included in net sales, research and development costs and all other non-manufacturing and non-distribution expenses.

We evaluate our allowance for doubtful accounts utilizing a combination of a historical experience and a periodic review of our accounts receivable aging and specific customer account analysis. A customer is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. We maintain and monitor a list of customers whose creditworthiness has diminished. We will continue to monitor customer creditworthiness given the recent economic credit crisis.

As part of our overall operations, we mine sorbent materials on property that we either own or lease. A significant part of our overall mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material that is then used in a majority of our production processes. In accordance with EITF Issue No. 04-06, *Accounting for Stripping Costs Incurred during Production in the Mining Industry*, production stripping costs are treated as a variable inventory production cost and are included in cost of sales in the period they are incurred. We defer and amortize the pre-production overburden removal costs associated with opening a new mine.

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

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

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133* ("SFAS 161"). This Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt this Statement as of February 1, 2009, the beginning of our third quarter of our fiscal year ending July 31, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* ("SFAS 160"). This statement establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the noncontrolling interest to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We will adopt this Statement as of August 1, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

3. RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, SFAS 157 was amended by FASB Staff Positions ("FSP") SFAS No. 157-1 *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* ("FSP SFAS 157-1") and by FSP SFAS No. 157-2 *Effective Date of FASB Statement No. 157* ("FSP SFAS 157-2"). FSP SFAS 157-1 amends SFAS 157 to exclude FASB Statement No. 13, *Accounting for Leases* ("SFAS 13") and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. FSP SFAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities until November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, SFAS 157 was further amended by FSP SFAS No. 157-3 ("FSP SFAS 157-3") *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*. FSP SFAS 157-3 was effective upon issuance and clarifies the application of SFAS 157 in a market that is not active and provides an example. See Note 5 for the description of our adoption of the nondelayed portions of SFAS 157.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted this Statement as of August 1, 2008. We did not elect the Fair Value Option for any of our financial assets or liabilities, and therefore, the adoption of FAS 159 had no impact on our consolidated financial position, results of operations or cash flows.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ("EITF 06-11"). EITF 06-11 requires that the tax benefit related to dividend and dividend equivalents paid on equity-classified nonvested shares and nonvested share units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 was to be applied prospectively for tax benefits on dividends declared in our fiscal year beginning August 1, 2008. The adoption of EITF 06-11 had an insignificant impact on our consolidated financial position, results of operations and cash flows.

4. INVENTORIES

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

	October 31, 2008	July 31, 2008
Finished goods	$ 12,306	$ 10,076
Packaging	3,942	3,798
Other	3,585	3,870
	$ 19,833	$ 17,744

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a quarterly review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The allowance not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at October 31, 2008 and July 31, 2008 were $177,000 and $138,000, respectively.

5. FAIR VALUE MEASUREMENTS

We adopted the required portions of SFAS 157, as amended, on August 1, 2008. SFAS 157 applies to all assets and liabilities that are being measured and reported at fair value. SFAS 157 defines fair value 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. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement. This Statement requires that financial assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

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

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

	Fair Value at October 31, 2008 (in thousands)		
	Total	Level 1	Level 2
Assets			
Cash and cash equivalents	$ 1,308	$ 1,308	$ —
Marketable equity securities	55	55	—
	3,498	—	3,498

Cash surrender value of life insurance

Cash and 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 money market mutual funds and U.S. Treasury securities.

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Marketable equity securities were valued using quoted market prices in active markets and as such are classified as Level 1 in the fair value hierarchy. These securities represent stock we own in one publicly traded company.

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models and represents the guaranteed value we would receive upon surrender of these policies as of October 31, 2008. These life insurance policies are held on key employees.

We generally apply fair value techniques on a non-recurring basis associated with: 1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets account for pursuant to SFAS No. 142 *Goodwill and other Intangible Assets* and 2) valuing potential impairment loss related to long-lived asses accounted for pursuant to SFAS No. 144 *Accounting for Impairment and Disposal of Long-Lived Assets*.

6. PENSION AND OTHER POST RETIREMENT BENEFITS

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

	PENSION PLANS (dollars in thousands) Three Months Ended	
	October 31, 2008	October 31, 2007
Components of net periodic pension benefit cost:		
Service cost	$ 210	$