

OIL DRI CORP OF AMERICA  
Form 10-Q  
March 10, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or  
15(d) of the  
Securities Exchange Act of 1934  
For the Quarterly Period Ended January 31,  
2011

or

Transition Report Pursuant to Section 13 or  
15(d) of the  
Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_  
to \_\_\_\_\_

Commission File Number 001-12622

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

36-2048898  
(I.R.S. Employer  
Identification No.)

410 North Michigan Avenue, Suite 400  
Chicago, Illinois  
(Address of principal executive offices)

60611-4213  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for at least the past 90 days.

Yes  No

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

Yes  No

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<br>filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated<br>filer <input type="checkbox"/> | Smaller reporting<br>company <input type="checkbox"/> |
|-----------------------------------------------------|-------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of January 31, 2011.

Common Stock – 5,049,552 Shares and Class B Stock – 2,049,409 Shares

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## FORWARD-LOOKING STATEMENTS

Certain statements in this report, including, but not limited to, those under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those statements elsewhere in this report and other documents we file with the Securities and Exchange 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,” “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, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010, which risk factors are incorporated herein by reference. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent

required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions, or otherwise.

TRADEMARK NOTICE

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

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

| ASSETS                                                                                                                                                            | January 31,<br>2011 | July 31,<br>2010 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------|
| Current Assets                                                                                                                                                    |                     |                  |
| Cash and cash equivalents                                                                                                                                         | \$19,282            | \$18,762         |
| Investment in short-term securities                                                                                                                               | 21,375              | 5,859            |
| Accounts receivable, less allowance of \$611 and \$572<br>at January 31, 2011 and July 31, 2010, respectively                                                     | 26,976              | 27,178           |
| Inventories                                                                                                                                                       | 17,254              | 16,023           |
| Deferred income taxes                                                                                                                                             | 2,867               | 2,867            |
| Prepaid repairs expense                                                                                                                                           | 3,684               | 3,993            |
| Prepaid expenses and other assets                                                                                                                                 | 2,214               | 1,507            |
| Total Current Assets                                                                                                                                              | 93,652              | 76,189           |
| Property, Plant and Equipment                                                                                                                                     |                     |                  |
| Cost                                                                                                                                                              | 181,248             | 177,617          |
| Less accumulated depreciation and amortization                                                                                                                    | (118,203 )          | (115,115 )       |
| Total Property, Plant and Equipment, Net                                                                                                                          | 63,045              | 62,502           |
| Other Assets                                                                                                                                                      |                     |                  |
| Goodwill                                                                                                                                                          | 5,162               | 5,162            |
| Trademarks and patents, net of accumulated amortization<br>of \$367 and \$357 at January 31, 2011 and July 31, 2010,<br>respectively                              | 603                 | 617              |
| Debt issuance costs, net of accumulated amortization<br>of \$372 and \$524 at January 31, 2011 and July 31, 2010,<br>respectively                                 | 502                 | 255              |
| Licensing agreements and non-compete agreements, net<br>of accumulated amortization of \$1,236 and \$3,611 at<br>January 31, 2011 and July 31, 2010, respectively | 1,003               | 1,127            |
| Deferred income taxes                                                                                                                                             | 3,861               | 3,981            |
| Other                                                                                                                                                             | 4,233               | 4,149            |
| Total Other Assets                                                                                                                                                | 15,364              | 15,291           |
| Total Assets                                                                                                                                                      | \$172,061           | \$153,982        |

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)

| LIABILITIES & STOCKHOLDERS' EQUITY                                                                                                                                    | January 31,<br>2011 | July 31,<br>2010 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------|
| <b>Current Liabilities</b>                                                                                                                                            |                     |                  |
| Current maturities of notes payable                                                                                                                                   | \$4,100             | \$3,500          |
| Accounts payable                                                                                                                                                      | 7,687               | 6,482            |
| Dividends payable                                                                                                                                                     | 1,059               | 1,043            |
| Accrued expenses:                                                                                                                                                     |                     |                  |
| Salaries, wages and commissions                                                                                                                                       | 4,248               | 7,064            |
| Trade promotions and advertising                                                                                                                                      | 2,654               | 2,313            |
| Freight                                                                                                                                                               | 1,649               | 1,504            |
| Other                                                                                                                                                                 | 5,952               | 5,885            |
| <b>Total Current Liabilities</b>                                                                                                                                      | <b>27,349</b>       | <b>27,791</b>    |
| <b>Noncurrent Liabilities</b>                                                                                                                                         |                     |                  |
| Notes payable                                                                                                                                                         | 31,200              | 14,800           |
| Deferred compensation                                                                                                                                                 | 6,789               | 6,818            |
| Pension and postretirement benefits                                                                                                                                   | 13,402              | 12,558           |
| Other                                                                                                                                                                 | 1,447               | 1,426            |
| <b>Total Noncurrent Liabilities</b>                                                                                                                                   | <b>52,838</b>       | <b>35,602</b>    |
| <b>Total Liabilities</b>                                                                                                                                              | <b>80,187</b>       | <b>63,393</b>    |
| <b>Stockholders' Equity</b>                                                                                                                                           |                     |                  |
| Common Stock, par value \$.10 per share, issued<br>7,679,721 shares at January 31, 2011 and 7,639,922<br>shares at July 31, 2010                                      | 768                 | 764              |
| Class B Stock, par value \$.10 per share, issued<br>2,374,150 shares at January 31, 2011 and 2,244,217<br>shares at July 31, 2010                                     | 237                 | 224              |
| Additional paid-in capital                                                                                                                                            | 28,482              | 25,104           |
| Restricted unearned stock compensation                                                                                                                                | (2,724 )            | (156 )           |
| Retained earnings                                                                                                                                                     | 118,819             | 116,917          |
| Accumulated Other Comprehensive Income                                                                                                                                |                     |                  |
| Unrealized gain on marketable securities                                                                                                                              | 68                  | 67               |
| Pension and postretirement benefits                                                                                                                                   | (5,196 )            | (5,310 )         |
| Cumulative translation adjustment                                                                                                                                     | 598                 | 492              |
|                                                                                                                                                                       | 141,052             | 138,102          |
| Less Treasury Stock, at cost (2,630,169 Common and 324,741<br>Class B shares at January 31, 2011 and 2,558,764 Common and<br>324,741 Class B shares at July 31, 2010) | (49,178 )           | (47,513 )        |
| <b>Total Stockholders' Equity</b>                                                                                                                                     | <b>91,874</b>       | <b>90,589</b>    |

|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Total Liabilities & Stockholders' Equity | \$172,061 | \$153,982 |
|------------------------------------------|-----------|-----------|

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



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

|                                                      | For The Six Months<br>Ended<br>January 31, |           |
|------------------------------------------------------|--------------------------------------------|-----------|
|                                                      | 2011                                       | 2010      |
| Net Sales                                            | \$113,486                                  | \$108,138 |
| Cost of Sales                                        | (87,786 )                                  | (83,145 ) |
| Gross Profit                                         | 25,700                                     | 24,993    |
| Selling, General and Administrative Expenses         | (18,824 )                                  | (18,158 ) |
| Income from Operations                               | 6,876                                      | 6,835     |
| <b>Other Income (Expense)</b>                        |                                            |           |
| Interest expense                                     | (945 )                                     | (715 )    |
| Interest income                                      | 38                                         | 74        |
| Other, net                                           | 65                                         | 82        |
| Total Other Income (Expense), Net                    | (842 )                                     | (559 )    |
| Income Before Income Taxes                           | 6,034                                      | 6,276     |
| Income taxes                                         | (1,738 )                                   | (1,820 )  |
| Net Income                                           | 4,296                                      | 4,456     |
| <b>Retained Earnings</b>                             |                                            |           |
| Balance at beginning of year                         | 116,917                                    | 111,593   |
| Cash dividends declared and treasury stock issuances | (2,394 )                                   | (2,007 )  |
| Retained Earnings – January 31                       | \$118,819                                  | \$114,042 |
| <b>Net Income Per Share</b>                          |                                            |           |
| Basic Common                                         | \$0.65                                     | \$0.67    |
| Basic Class B                                        | \$0.49                                     | \$0.50    |
| Diluted                                              | \$0.60                                     | \$0.61    |
| <b>Average Shares Outstanding</b>                    |                                            |           |
| Basic Common                                         | 5,082                                      | 5,200     |
| Basic Class B                                        | 1,902                                      | 1,885     |
| Diluted                                              | 7,112                                      | 7,259     |

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

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

|                                          | For The Six Months<br>Ended<br>January 31, |         |
|------------------------------------------|--------------------------------------------|---------|
|                                          | 2011                                       | 2010    |
| Net Income                               | \$4,296                                    | \$4,456 |
| Other Comprehensive Income:              |                                            |         |
| Unrealized gain on marketable securities | 1                                          | 15      |
| Pension and postretirement benefits      | 114                                        | 97      |
| Cumulative translation adjustment        | 106                                        | 37      |
| Total Comprehensive Income               | \$4,517                                    | \$4,605 |

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<br>Ended<br>January 31 |           |
|----------------------------------------------|---------------------------------------------|-----------|
|                                              | 2011                                        | 2010      |
| Net Sales                                    | \$57,201                                    | \$54,734  |
| Cost of Sales                                | (44,709 )                                   | (42,064 ) |
| Gross Profit                                 | 12,492                                      | 12,670    |
| Selling, General and Administrative Expenses | (9,438 )                                    | (9,187 )  |
| Income from Operations                       | 3,054                                       | 3,483     |
| <b>Other Income (Expense)</b>                |                                             |           |
| Interest expense                             | (534 )                                      | (341 )    |
| Interest income                              | 19                                          | 34        |
| Other, net                                   | 15                                          | 45        |
| Total Other Income (Expense), Net            | (500 )                                      | (262 )    |
| Income Before Income Taxes                   | 2,554                                       | 3,221     |
| Income taxes                                 | (777 )                                      | (959 )    |
| Net Income                                   | \$1,777                                     | \$2,262   |
| <b>Net Income Per Share</b>                  |                                             |           |
| Basic Common                                 | \$0.27                                      | \$0.34    |
| Basic Class B                                | \$0.20                                      | \$0.26    |
| Diluted                                      | \$0.25                                      | \$0.31    |
| <b>Average Shares Outstanding</b>            |                                             |           |
| Basic Common                                 | 5,079                                       | 5,206     |
| Basic Class B                                | 1,908                                       | 1,890     |
| Diluted                                      | 7,097                                       | 7,269     |

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<br>Ended<br>January 31 |         |
|-------------------------------------------------|---------------------------------------------|---------|
|                                                 | 2011                                        | 2010    |
| Net Income                                      | \$1,777                                     | \$2,262 |
| Other Comprehensive Income:                     |                                             |         |
| Unrealized gain (loss) on marketable securities | 6                                           | (2 )    |
| Pension and postretirement benefits             | 56                                          | 43      |
| Cumulative translation adjustment               | 80                                          | 50      |
| Total Comprehensive Income                      | \$1,919                                     | \$2,353 |

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 Six Months Ended January 31, |           |
|-----------------------------------------------------------------------------------|--------------------------------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES                                              | 2011                                 | 2010      |
| Net Income                                                                        | \$ 4,296                             | \$ 4,456  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |           |
| Depreciation and amortization                                                     | 4,182                                | 3,711     |
| Amortization of investment discount                                               | 9                                    | (6 )      |
| Non-cash stock compensation expense                                               | 315                                  | 173       |
| Excess tax benefits for share-based payments                                      | (217 )                               | (88 )     |
| Deferred income taxes                                                             | 73                                   | 67        |
| Provision for bad debts                                                           | 35                                   | (52 )     |
| Loss on the sale of fixed assets                                                  | 145                                  | 63        |
| (Increase) Decrease in:                                                           |                                      |           |
| Accounts receivable                                                               | 167                                  | 1,842     |
| Inventories                                                                       | (1,231 )                             | 810       |
| Prepaid expenses                                                                  | (398 )                               | 109       |
| Other assets                                                                      | (231 )                               | 329       |
| Increase (Decrease) in:                                                           |                                      |           |
| Accounts payable                                                                  | 1,468                                | 285       |
| Accrued expenses                                                                  | (2,263 )                             | 783       |
| Deferred compensation                                                             | (29 )                                | 388       |
| Other liabilities                                                                 | 935                                  | 893       |
| Total Adjustments                                                                 | 2,960                                | 9,307     |
| Net Cash Provided by Operating Activities                                         | 7,256                                | 13,763    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                      |           |
| Capital expenditures                                                              | (4,773 )                             | (4,818 )  |
| Proceeds from sale of property, plant and equipment                               | 131                                  | 337       |
| Purchases of investment in short-term securities                                  | (38,375 )                            | (14,995 ) |
| Dispositions of investment in short-term securities                               | 22,850                               | 17,000    |
| Net Cash Used in Investing Activities                                             | (20,167 )                            | (2,476 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                      |           |
| Proceeds from issuance of notes payable                                           | 18,500                               | --        |
| Principal payments on notes payable                                               | (1,500 )                             | (200 )    |
| Dividends paid                                                                    | (2,103 )                             | (1,991 )  |
| Purchase of treasury stock                                                        | (2,194 )                             | (538 )    |
| Proceeds from issuance of treasury stock                                          | 221                                  | 52        |
| Proceeds from issuance of common stock                                            | 327                                  | 297       |
| Excess tax benefits for share-based payments                                      | 217                                  | 88        |
| Other, net                                                                        | 49                                   | 26        |
|                                                                                   | 13,517                               | (2,266 )  |

Net Cash Provided by (Used in) Financing  
Activities

|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (86 )     | 4         |
| Net Increase in Cash and Cash Equivalents                    | 520       | 9,025     |
| Cash and Cash Equivalents, Beginning of Year                 | 18,762    | 11,839    |
| Cash and Cash Equivalents, January 31                        | \$ 19,282 | \$ 20,864 |

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



OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements

(Unaudited)

1. BASIS OF STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the consolidated financial statements and related notes for the year ended July 31, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

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

The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three and six months ended January 31, 2011 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2011.

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

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

We evaluate our allowance for doubtful accounts utilizing a combination of a historical experience and a periodic review of our accounts receivable aging and specific customer account analysis. A customer 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 maintain and monitor a list of customers whose creditworthiness has diminished.

As part of our overall operations, we mine sorbent materials on property that we either own or lease. A significant part of our overall mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material that is then used in a majority of our production processes. These stripping costs are treated as a variable inventory production cost and are included in cost of sales in the period they are incurred. We defer as prepaid expense and amortize the pre-production overburden removal costs associated with opening a new mine.

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

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

## 2. NEW ACCOUNTING PRONOUNCEMENTS

### Recently Adopted Accounting Standards

We adopted the required portions of FASB guidance issued in July 2010 under Accounting Standards Codification (“ASC”) 310-10, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The guidance effective for this Quarterly Report on Form 10-Q for the quarter ending January 31, 2011 required new disclosures to provide a greater level of disaggregated information about the credit quality of financing receivables, including credit quality indicators, past due information and modifications of financing receivables. We had no material financing receivables as of January 31, 2011; therefore, the adoption of this guidance did not result in any new disclosures in the notes to the unaudited consolidated financial statements.

### Recently Issued Accounting Standards

In January 2010, the FASB issued guidance under ASC 820-10, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, that requires new disclosures related to Level 3 fair value measurements. Adoption of this guidance may result in enhanced disclosures beginning with our Quarterly Report on Form 10-Q for the quarter ending October 31, 2011 and will not have a material impact on the Consolidated Financial Statements.

## 3. INVENTORIES

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

|                | January<br>31,<br>2011 | July 31,<br>2010 |
|----------------|------------------------|------------------|
| Finished goods | \$ 10,697              | \$ 9,834         |
| Packaging      | 3,298                  | 3,051            |
| Other          | 3,259                  | 3,138            |
|                | \$ 17,254              | \$ 16,023        |

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a quarterly review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The allowance not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at January 31, 2011 and July 31, 2010 were \$362,000 and \$449,000, respectively.

## 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are prioritized into one of three categories based on the lowest level of input that is significant to the fair value measurement. The categories in the hierarchy are:

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

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

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

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

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

|                                        | Fair Value at January 31, 2011<br>(in thousands) |           |         |
|----------------------------------------|--------------------------------------------------|-----------|---------|
|                                        | Total                                            | Level 1   | Level 2 |
| Assets                                 |                                                  |           |         |
| Cash equivalents                       | \$ 10,899                                        | \$ 10,899 | \$--    |
| Marketable equity securities           | 71                                               | 71        | --      |
| Cash surrender value of life insurance | 3,902                                            | --        | 3,902   |

Cash equivalents are classified as Level 1 of the fair value hierarchy because they were valued using quoted market prices in active markets. These cash instruments are primarily money market mutual funds.

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

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions and dividend accumulations. The cash surrender value represents the guaranteed value we would receive upon surrender of these policies held on key employees as of January 31, 2011. The cash surrender value of life insurance is included in other assets on the condensed Consolidated Balance Sheets.

The investment in short-term securities on the Consolidated Balance Sheets includes U.S. Treasury securities, certificates of deposit and debt securities. We have the ability to hold our investment in short-term securities to maturity and intend to do so; therefore, these investments were reported at amortized cost on the Consolidated Balance sheets, which approximated fair value as of January 31, 2011, 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 January 31, 2011 due to the short maturity and nature of those balances; therefore, these balances are excluded from the above table.

The carrying values of notes payable approximated their fair values at January 31, 2011 and are not included in the above table. The estimated fair value of long-term debt, including current maturities, was approximately \$35,930,000 as of January 31, 2011.

We apply fair value techniques on a non-recurring basis associated with: (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets and (2) valuing potential impairment loss related to long-lived assets.

## 5. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

| PENSION PLAN<br>(dollars in thousands) |                  |
|----------------------------------------|------------------|
| Three Months Ended                     | Six Months Ended |
|                                        |                  |

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|                                                  | January 31, |        | January 31, |        |
|--------------------------------------------------|-------------|--------|-------------|--------|
|                                                  | 2011        | 2010   | 2011        | 2010   |
| Components of net periodic pension benefit cost: |             |        |             |        |
| Service cost                                     | \$361       | \$301  | \$646       | \$569  |
| Interest cost                                    | 379         | 252    | 754         | 708    |
| Expected return on plan assets                   | (326 )      | (217 ) | (644 )      | (583 ) |
| Net amortization                                 | 87          | 59     | 170         | 137    |
|                                                  | \$501       | \$395  | \$926       | \$831  |

We have funded the plan based upon actuarially determined contributions that take into account the normal cost and the minimum and maximum contribution requirements of various regulations. We did not make a contribution to our pension plan during the six months ended January 31, 2011. We intend to make a contribution to the pension plan during the current fiscal year approximately equal to the annual actuarial determined cost. We currently estimate this amount to be approximately \$1,200,000. See Item 3. Quantitative and Qualitative Disclosures About Market Risk for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

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

|                                                         | POST RETIREMENT HEALTH BENEFITS |                     |                     |                     |
|---------------------------------------------------------|---------------------------------|---------------------|---------------------|---------------------|
|                                                         | (dollars in thousands)          |                     |                     |                     |
|                                                         | Three Months Ended              |                     | Six Months Ended    |                     |
|                                                         | January 31,<br>2011             | January 31,<br>2010 | January 31,<br>2011 | January 31,<br>2010 |
| Components of net periodic postretirement benefit cost: |                                 |                     |                     |                     |
| Service cost                                            | \$22                            | \$16                | \$42                | \$37                |
| Interest cost                                           | 19                              | 16                  | 46                  | 48                  |
| Amortization of net transition obligation               | 4                               | 4                   | 8                   | 8                   |
| Net actuarial loss                                      | --                              | 5                   | 7                   | 10                  |
|                                                         | \$45                            | \$41                | \$103               | \$103               |

Our plan covering postretirement health benefits is an unfunded plan.

Assumptions used in the previous calculations were as follows:

|                                             | PENSION PLAN                    |   |                        |   | POST RETIREMENT HEALTH BENEFITS |   |                        |   |
|---------------------------------------------|---------------------------------|---|------------------------|---|---------------------------------|---|------------------------|---|
|                                             | For three and six months ended: |   |                        |   |                                 |   |                        |   |
|                                             | January<br>31,<br>2011          |   | January<br>31,<br>2010 |   | January<br>31,<br>2011          |   | January<br>31,<br>2010 |   |
| Discount rate for net periodic benefit cost | 5.50                            | % | 6.00                   | % | 5.50                            | % | 6.00                   | % |
| Rate of increase in compensation levels     | 4.00                            | % | 4.00                   | % | --                              |   | --                     |   |
| Long-term expected rate of return on assets | 7.50                            | % | 7.50                   | % | --                              |   | --                     |   |
| Measurement date                            | 7/31/2010                       |   | 7/31/2009              |   | 7/31/2010                       |   | 7/31/2009              |   |
| Census date                                 | 8/1/2010                        |   | 8/1/2009               |   | 8/1/2010                        |   | 8/1/2009               |   |

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

## 6. SEGMENT REPORTING

We have two operating segments: Retail and Wholesale Products and Business to Business Products. These segments are managed separately because each business has different customer characteristics. Net sales and operating income for each segment are provided below. As the result of a change in management organization in fiscal 2011, our sports field products are now included in the Retail and Wholesale Products Group. Prior year segment net sales and operating income have also been restated to reflect this change. The organization change was intended to better serve our customers and the segment information presented reflects the information regularly reviewed by our chief operating decision maker.

Revenues by product line are not provided because it would be impracticable to do so. The accounting policies of the segments are the same as those described in Note 1 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2010 filed with the SEC.

We do not rely on any operating segment asset allocations and we do not consider them meaningful because of the shared nature of our production facilities; however, we have estimated the segment asset allocations below for those assets for which we can reasonably determine. The unallocated asset category is the remainder of our total assets. The asset allocation is estimated and is not a measure used by our chief operating decision maker about allocating resources to the operating segments or in assessing their performance. The corporate expenses line includes certain unallocated expenses, primarily salaries, wages and benefits, purchased services, rent, utilities and depreciation and amortization associated with corporate functions such as research and development, information systems, finance, legal, human resources and customer service. Corporate expenses also include the estimated annual incentive plan bonus accrual.



|                               | Assets              |                  |
|-------------------------------|---------------------|------------------|
|                               | January 31,<br>2011 | July 31,<br>2010 |
|                               | (in thousands)      |                  |
| Business to Business Products | \$ 40,746           | \$ 41,773        |
| Retail and Wholesale Products | 71,679              | 69,248           |
| Unallocated Assets            | 59,636              | 42,961           |
| Total Assets                  | \$ 172,061          | \$ 153,982       |

|                                          | Six Months Ended January 31, |           |                  |          |
|------------------------------------------|------------------------------|-----------|------------------|----------|
|                                          | Net Sales                    |           | Operating Income |          |
|                                          | 2011                         | 2010      | 2011             | 2010     |
|                                          | (in thousands)               |           |                  |          |
| Business to Business Products            | \$37,026                     | \$34,669  | \$9,801          | \$9,757  |
| Retail and Wholesale Products            | 76,460                       | 73,469    | 5,666            | 6,001    |
| Total Sales/Operating Income             | \$113,486                    | \$108,138 | 15,467           | 15,758   |
| Less:                                    |                              |           |                  |          |
| Corporate Expenses                       |                              |           | 8,526            | 8,841    |
| Interest Expense, net of Interest Income |                              |           | 907              | 641      |
| Income before Income Taxes               |                              |           | 6,034            | 6,276    |
| Income Taxes                             |                              |           | (1,738 )         | (1,820 ) |
| Net Income                               |                              |           | \$4,296          | \$4,456  |

|                                          | Three Months Ended January 31, |          |                  |         |
|------------------------------------------|--------------------------------|----------|------------------|---------|
|                                          | Net Sales                      |          | Operating Income |         |
|                                          | 2011                           | 2010     | 2011             | 2010    |
|                                          | (in thousands)                 |          |                  |         |
| Business to Business Products            | \$17,981                       | \$17,892 | \$4,513          | \$5,136 |
| Retail and Wholesale Products            | 39,220                         | 36,842   | 2,600            | 2,897   |
| Total                                    | \$57,201                       | \$54,734 | 7,113            | 8,033   |
| Less:                                    |                                |          |                  |         |
| Corporate Expenses                       |                                |          | 4,044            | 4,505   |
| Interest Expense, net of Interest Income |                                |          | 515              | 307     |
| Income before Income Taxes               |                                |          | 2,554            | 3,221   |
| Income Taxes                             |                                |          | (777 )           | (959 )  |
| Net Income                               |                                |          | \$1,777          | \$2,262 |

## 7. STOCK-BASED COMPENSATION

We determine the fair value of stock options and restricted stock issued under our long term incentive plans as of the grant date. We recognize the related compensation expense over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional service to the company.

## Stock Options

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

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan (“2006 Plan”) permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based and cash-based awards. Our employees and non-employee directors are eligible to receive grants under the 2006 Plan. The total number of shares of stock subject to grants under the 2006 Plan may not exceed 937,500. Option grants covering 25,000 shares have been issued to our outside directors with a vesting period of one year and option grants covering 32,500 shares have been issued to employees with vesting similar to the vesting described above under the 1995 Plan. In addition, 227,115 restricted shares have been issued under the 2006 Plan.

The Oil-Dri Corporation of America Outside Director Stock Plan (the “Directors’ Plan”) provides for grants of stock options to our directors at an option price per share of 100% of the fair market value of Common Stock on the date of grant. Stock options have been granted to our directors for a 10-year term with a one year vesting period. There are 18,750 stock options outstanding as of January 31, 2011 and no stock options are available for future grants under this plan. All stock issued under this plan was from treasury stock.

No stock options were granted in the first six months of fiscal years 2011 or 2010.

Changes in our stock options during the first six months of fiscal 2011 were as follows:

|                                       | Number of<br>Shares (in<br>thousands) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value (in<br>thousands) |
|---------------------------------------|---------------------------------------|------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------|
| Options outstanding, July 31, 2010    | 327                                   | \$9.87                                   | 3.2                                                                | \$3,934                                           |
| Exercised                             | (69 )                                 | \$7.92                                   |                                                                    | \$921                                             |
| Options outstanding, January 31, 2011 | 258                                   | \$10.39                                  | 3.0                                                                | \$2,243                                           |
| Options exercisable, January 31, 2011 | 253                                   | \$10.26                                  | 3.0                                                                | \$2,233                                           |

The amount of cash received from the exercise of stock options during the second quarter of fiscal 2011 was \$255,000 and the related tax benefit was \$114,000. The amount of cash received from the exercise of stock options during the second quarter of fiscal 2010 was \$296,000 and the related tax benefit was \$93,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2011 was \$549,000 and the related tax benefit was \$268,000. The amount of cash received from the exercise of stock options during the first six months of fiscal 2010 was \$350,000 and the related tax benefit was \$99,000.

#### Restricted Stock

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

Under the 2006 Plan, no new restricted shares of common stock were granted in the second quarter of either fiscal 2011 or fiscal 2010. In the first six months of fiscal 2011, 129,933 restricted shares of Class B Stock and 2,000 restricted shares of Common Stock were granted. In the first six months of fiscal 2010, 5,182 restricted shares of Class B Stock were granted.

Included in our stock-based compensation expense in the second quarter of fiscal years 2011 and 2010 was \$187,000 and \$79,000, respectively, related to unvested restricted stock. In the first six months of fiscal years 2011 and 2010, the expense related to the unvested restricted stock was \$308,000 and \$151,000, respectively.

Changes in our restricted stock outstanding during the first six months of fiscal 2011 were as follows:

| Restricted<br>Shares | Weighted<br>Average<br>Grant |
|----------------------|------------------------------|
|----------------------|------------------------------|

|                                                     | (in<br>thousands) | Date Fair<br>Value |
|-----------------------------------------------------|-------------------|--------------------|
| Unvested restricted<br>stock at July 31, 2010       | 23                | \$ 15.31           |
| Vested                                              | (18 )             | \$ 15.37           |
| Granted                                             | 132               | \$ 21.81           |
| Unvested restricted<br>stock at January 31,<br>2011 | 137               | \$ 21.55           |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included herein and our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended July 31, 2010. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Forward-Looking Statements" and Item 1A (Risk Factors) of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010.

### OVERVIEW

We develop, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other sorbent materials. Our principal products include cat litter, industrial and automotive absorbents, bleaching clay and clarification aids, agricultural chemical carriers, animal health and nutrition and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end customer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable segments, the Retail and Wholesale Products Group and the Business to Business Products Group, as described in Note 6 of the unaudited condensed consolidated financial statements.

As the result of a change in management organization in fiscal 2011, our sports field products are now included in the Retail and Wholesale Products Group. Prior year segment net sales and operating income have been restated to reflect this change. The organization change was intended to better serve our customers and the segment information presented reflects the information regularly reviewed by our chief operating decision maker.

### RESULTS OF OPERATIONS

#### SIX MONTHS ENDED JANUARY 31, 2011 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2010

Consolidated net sales for the six months ended January 31, 2011 were \$113,486,000, an increase of 5% from net sales of \$108,138,000 in the first six months of fiscal 2010. Net income for the first six months of fiscal 2011 was \$4,296,000, a decrease of 4% from net income of \$4,456,000 in the first six months of fiscal 2010. Diluted net income per share for the first six months of fiscal 2011 was \$0.60 compared to \$0.61 for the first six months of fiscal 2010.

Net income for the first six months of fiscal 2011 was negatively impacted by higher costs for freight, materials and packaging and selling, general and administrative expenses; however, the unfavorable impact was lessened by an increased proportion of sales from products with a higher net selling price and a lower cost for fuel used in our manufacturing processes. The change in selling, general and administrative expenses is described in the operating segments and consolidated results discussions below. Freight costs increased due to higher diesel fuel prices. Materials costs increased due to higher non-fuel manufacturing costs, as discussed in the consolidated results below, which were partially offset by lower fuel costs in our manufacturing processes. Packaging costs increased due to fluctuations in the resin and paper markets. The Business to Business Products Group's segment operating income improved slightly due to a higher average net selling price and a greater proportion of sales from higher priced

products, which was mostly offset by the negative impact of higher costs. The Retail and Wholesale Products Group's segment operating income decreased due to higher costs and weak performance of our foreign subsidiaries, which outweighed the benefit of a greater proportion of sales from higher priced products.

#### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal 2011 were \$37,026,000, an increase of \$2,357,000, or 7%, from net sales of \$34,669,000 in the first six months of fiscal 2010. The Group benefited from a higher average net selling price and an increased proportion of sales from higher priced products, which more than offset a 1% decline in tons sold. Net sales and tons sold were up for fluid purification products and agricultural chemical carriers, but were down for animal health and nutrition products and co-packaged cat litter. Net sales of fluid purification products increased 13% with 12% more tons sold in the first six months of fiscal 2011 compared to the first six months of fiscal 2010. Export sales improved for fluid purification products used in palm oil and other edible oil processing. Net sales of agricultural chemical carrier products increased 13% with 2% more tons sold. Agricultural chemical carrier sales benefited from a greater proportion of sales from higher priced products. The higher net sales in the first six months of fiscal 2011 also reflected a return to more historical levels of tons sold. Sales were comparably lower in the first six months of fiscal 2010 as high customer inventory levels contributed to lower demand for our products. Our co-packaged traditional coarse cat litter net sales decreased 5% due to the continued decline of the coarse cat litter market as a whole. Animal health and nutrition products net sales and tons sold declined slightly compared to the first six months of fiscal 2010.

The Business to Business Products Group's segment operating income for the first six months of fiscal 2011 was \$9,801,000, an increase of \$44,000 from operating income of \$9,757,000 in the first six months of fiscal 2010. This increase was driven by the higher sales described above, which were partially offset by higher costs. The Group's combined freight, materials and packaging costs increased approximately 13% compared to the first six months of fiscal 2010. Freight costs increased approximately 20% due primarily to higher diesel fuel prices and increased export sales. Material costs increased approximately 10% as higher non-fuel manufacturing costs more than offset the lower cost of fuel used in our manufacturing processes. See the discussion of manufacturing costs under Consolidated Results below. Packaging costs also increased 15% due to fluctuations in the price of paper and resin. Selling, general and administrative expenses for the Group were up 6% compared to the first six months of fiscal 2010 due primarily to increased advertising and travel to promote our animal health and nutrition products.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first six months of fiscal 2011 were \$76,460,000, an increase of \$2,991,000, or 4%, from net sales of \$73,469,000 reported in the first six months of fiscal 2010. The increase in net sales was driven by higher sales of cat litter and industrial absorbents. These increases outweighed a decrease in sales by our foreign subsidiaries, which is described under Foreign Operations below. Cat litter net sales increased approximately 6% due to a greater proportion of sales from products with a higher net selling price and lower trade spending for product promotion, which is deducted from net sales. Net sales of branded cat litter increased approximately 16% due to 13% more tons sold and lower trade spending. Our branded cat litter net sales increased at Wal-Mart Stores, Inc. ("Wal-Mart") and at other customers due to increased distribution. Wal-Mart began to carry a reduced number of cat litter brands, including ours, in the first quarter of fiscal 2010. During the third quarter of fiscal 2010, Wal-Mart began reinstating our branded scoopable litter in certain stores; however, the new store count currently remains materially reduced from the store count at the end of fiscal 2009. Sales to Wal-Mart for the first six months of fiscal 2011 were higher than for the first six months of fiscal 2010, but remain lower than historical periods. Net sales of private label cat litter in the first six months of fiscal 2011 were similar to those in same period in the prior year. Industrial absorbents net sales increased 7% in the first six months of fiscal 2011 compared to the first six months of fiscal 2010. The increase in sales was due primarily to increased demand from industrial distributors and a higher proportion of sales from higher priced products.

The Retail and Wholesale Products Group's segment operating income for the first six months of fiscal 2011 was \$5,666,000, a decrease of \$335,000, or 6%, from operating income of \$6,001,000 in the first six months of fiscal 2010. This decrease was driven by higher costs, which more than offset the increased net sales described above. The Group's combined freight, materials and packaging costs increased approximately 8% compared to the first six months of fiscal 2010. Freight costs increased approximately 6% due primarily to higher diesel fuel prices. Material costs increased approximately 8% as higher non-fuel manufacturing costs more than offset the lower cost of fuel used in manufacturing. See the discussion of manufacturing costs under Consolidated Results below. Packaging costs also increased 10% due to fluctuations in the price of paper and resin. Selling, general and administrative expenses for the Group were up 11% compared to the first six months of fiscal 2010 due primarily to increased spending for new product market research and advertising. In addition, fiscal 2010 experienced a reduction of bad debt expense due to lower reserve requirements associated with lower sales.

#### CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales for the first six months of fiscal 2011 was 23%, the same as for the first six months of fiscal 2010. Gross profit was positively impacted by an increased proportion of sales from products with a higher net selling price and by the lower cost of fuel used in our manufacturing processes, which offset higher costs for packaging, freight and materials. The cost of fuel was 15% lower in the first six months of

fiscal 2011 compared to the first six months of fiscal 2010. We use natural gas, fuel oil and coal in the manufacturing process to operate kilns that dry our clay. As described in Item 3. Quantitative and Qualitative Disclosures About Market Risk below, we have contracted for a portion of our planned fuel needs for fiscal 2011. Gross profit for the first six months of fiscal 2011 was negatively impacted by a 9% increase in non-fuel manufacturing cost per ton produced, which includes depreciation and amortization. This cost increase was driven primarily by increased manufacturing of products that required purchased additives, fragrances and other materials. Labor and benefits costs also increased compared to the prior year.



Selling, general and administrative expenses as a percentage of net sales for the first six months of fiscal 2011 were 17%, the same as for the first six months of fiscal 2010. The discussions of the Groups' operating income above describe the fluctuation in the selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in the first six months of fiscal 2010 included a lower estimated annual incentive plan bonus accrual. The incentive bonus expense was based on performance targets that are established for each fiscal year. The lower bonus expense was partially offset by increased spending for research and development, higher depreciation expense for computer software and equipment and additional compensation expense related to restricted stock awards. In addition, selling, general and administrative expenses at both the operating segment and corporate levels included higher health care costs.

Interest expense was \$230,000 higher for the first six months of fiscal 2011 compared to the same period in fiscal 2010. Interest expense increased due primarily to the discontinued capitalization of interest for a product-related capital project and additional interest on new debt issued in the second quarter of fiscal 2011. See Liquidity and Capital Resources below for more information on the new debt. Interest income was \$36,000 lower in the first six months of fiscal 2011 due to less interest earned on a lease receivable, which exceeded the additional interest received on higher average investment balances.

Our effective tax rate was 29% of pre-tax income for the first six months of fiscal 2011 compared to the 26% effective tax rate for the full year of fiscal 2010. The effective tax rate for fiscal 2011 is based on the projected composition and level of our taxable income for the year. The tax rate in fiscal 2010 reflected the utilization of prior period Alternative Minimum Tax credits.

Total assets increased \$18,079,000, or 12%, during the first six months of fiscal 2011. Current assets increased \$17,463,000, or 23%, from fiscal 2010 year end balances due primarily to higher investments in short-term securities, inventories, other prepaid expenses and cash and cash equivalents. These increases were partially offset by decreases in prepaid repair expense and accounts receivable. The changes in current assets are described below in Liquidity and Capital Resources. Property, plant and equipment, net of accumulated depreciation, increased \$543,000 during the first six months of fiscal 2011 due to additions in excess of depreciation expense. Additions were primarily for replacement of machinery, land purchases and other capital projects at our manufacturing facilities. Other noncurrent assets increased \$73,000 from fiscal 2010 year end balances due to capitalization of costs related to the issuance of new debt and increased cash surrender value of life insurance on key employees. These increases were partially offset by amortization of certain other assets and lower deferred income taxes.

Total liabilities increased \$16,794,000, or 27%, during the first six months of fiscal 2011. Current liabilities decreased \$442,000, or 2%, from fiscal 2010 year end balances due primarily to lower accrued salaries that was partially offset by increased accounts payable, current maturities of notes payable, accrued trade promotions and accrued freight. Current maturities of notes payable increased as the amount reclassified from noncurrent liabilities was greater than debt payments. The changes in current liabilities are described below in Liquidity and Capital Resources. Noncurrent liabilities increased \$17,236,000, or 48%, from fiscal 2010 year end balances due primarily to the issuance of new debt and higher accruals for pension and postretirement benefits, which are based on the most recent actuarial estimates.

### THREE MONTHS ENDED JANUARY 31, 2011 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2010

Consolidated net sales for the three months ended January 31, 2011 were \$57,201,000, an increase of 5% from net sales of \$54,734,000 for the three months ended January 31, 2010. Net income for the second quarter of fiscal 2011 was \$1,777,000, a decrease of 21% from net income of \$2,262,000 in the second quarter of fiscal 2010. Diluted net income per share for the second quarter of fiscal 2011 was \$0.25 compared to \$0.31 for the second quarter of fiscal

2010.

Consolidated net income for the second quarter of fiscal 2011 was negatively impacted by higher costs for freight, materials and packaging and selling, general and administrative expenses; however, the unfavorable impact was lessened by an increased proportion of sales from products with a higher net selling price and the lower cost for fuel used in our manufacturing processes. The change in selling, general and administrative expenses is described in the operating segments and consolidated results discussions below. Freight costs increased due to higher diesel fuel prices. Materials costs increased due to higher non-fuel manufacturing costs, as discussed in the consolidated results below, which were partially offset by lower fuel costs in our manufacturing processes. Packaging costs increased due to fluctuations in the resin and paper markets. Segment operating income declined for both the Business to Business Products Group and the Retail and Wholesale Products Group due to higher costs. The Retail and Wholesale Products Group was also affected by weak performance of our foreign subsidiaries and increased spending on new product market research and advertising.

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## BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal 2011 were \$17,981,000, an increase of \$89,000 from net sales of \$17,892,000 in the second quarter of fiscal 2010. The Group benefited from a higher average net selling price that offset a 6% decrease in tons sold and a lower proportion of sales of higher priced products. Net sales of fluid purification and animal health and nutrition products increased, while net sales of co-packaged cat litter and agricultural chemical carrier products decreased. Net sales of fluid purification products increased 7% with 8% more tons sold in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010. Export sales improved for fluid purification products used in palm oil and other edible oil processing, which outweighed a decline in sales for products used for biodiesel processing. Animal health and nutrition products net sales increased 10% compared to the second quarter of fiscal 2010. Sales increased to new and existing customers for both our traditional and enterosorbent animal health products. Sales for traditional products benefited from increased poultry production in Asia. Net sales of agricultural chemical carrier products decreased 7% with 7% fewer tons sold due to timing of customer orders placed earlier in the year compared to fiscal 2010, which resulted in higher sales in the first quarter of fiscal 2011. Our co-packaged traditional coarse cat litter net sales decreased 9% due to the continued decline of the coarse cat litter market as a whole.

The Business to Business Products Group's segment operating income for the second quarter of fiscal 2011 was \$4,513,000, a decrease of \$623,000, or 12%, from operating income of \$5,136,000 in the second quarter of fiscal 2010. This decrease in segment operating income was driven by an increase of approximately 12% for combined freight, materials and packaging costs. Freight costs increased approximately 16% due primarily to higher diesel fuel prices and increased export sales. Material costs increased approximately 10% as higher non-fuel manufacturing costs more than offset the lower cost of fuel used in manufacturing. See the discussion of manufacturing costs under Consolidated Results below. Packaging costs also increased 26% due to fluctuations in the price of paper and resin. Selling, general and administrative expenses for the Group were up 4% compared to the second quarter of fiscal 2010 due primarily to increased advertising and travel to promote our animal health and nutrition products.

## RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the second quarter of fiscal 2011 were \$39,220,000, an increase of \$2,378,000, or 7%, from net sales of \$36,842,000 in the second quarter of fiscal 2010. The increase in net sales was driven by higher sales of cat litter and industrial absorbents. These increases outweighed a decrease in sales by our foreign subsidiaries as described under Foreign Operations below. Cat litter net sales were up approximately 8% due to a greater proportion of sales from products with a higher net selling price and a 2% increase in tons sold. Net sales of branded cat litter increased approximately 19% due to 20% more tons sold. Our branded cat litter net sales increased at Wal-Mart and at other customers due to increased distribution. Wal-Mart began to carry a reduced number of cat litter brands, including ours, in the first quarter of fiscal 2010. During the third quarter of fiscal 2010, Wal-Mart began reinstating our branded scoopable litter in certain stores; however, the new store count currently remains materially reduced from the store count at the end of fiscal 2009. Sales to Wal-Mart for the second quarter of fiscal 2011 were higher than for the second quarter of fiscal 2010, but remain lower than historical periods. Net sales of private label cat litter in the second quarter of fiscal 2011 were similar to the same period in the prior year. Industrial absorbents net sales increased 12% compared to the second quarter of fiscal 2010 due primarily to a 4% increase in tons sold and a higher average net selling price.

The Retail and Wholesale Products Group's segment operating income for the second quarter of fiscal 2011 was \$2,600,000, a decrease of \$297,000, or 10%, from operating income of \$2,897,000 in the second quarter of fiscal 2010. The decrease was primarily due to higher costs, which more than offset the increased net sales described above. The Group's combined freight, materials and packaging costs increased approximately 7% compared to the

second quarter of fiscal 2010. Freight costs increased approximately 6% due primarily to higher diesel fuel prices. Material costs increased approximately 8% as higher non-fuel manufacturing costs more than offset the lower cost of fuel used in manufacturing. See the discussion of manufacturing costs under Consolidated Results below. Packaging costs also increased 12% due to fluctuations in the price of paper and resin. Selling, general and administrative expenses for the Group were up 19% compared to the second quarter of fiscal 2010 due primarily to increased spending for new product market research and advertising and increased commissions as the result of the higher sales. In addition, fiscal 2010 experienced a reduction of bad debt expense due to lower reserve requirements associated with lower sales.

## CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales for the second quarter of fiscal 2011 was 22%, compared to 23% in the second quarter of fiscal 2010. Gross profit was negatively impacted by the higher materials, packaging and freight costs described above and by an 11% increase in non-fuel manufacturing cost per ton produced, which includes depreciation and amortization. The increase in non-fuel manufacturing costs was driven primarily by increased manufacturing of products that required purchased additives, fragrances and other materials. Labor and benefits costs also increased compared to the prior year. These increased costs exceeded the benefit from a 19% lower cost for fuel used in our manufacturing processes. We use natural gas, fuel oil and coal in the manufacturing process to operate kilns that dry our clay. As described in Item 3. Quantitative and Qualitative Disclosures About Market Risk below, we have contracted for a portion of our planned fuel needs for fiscal 2011.

Selling, general and administrative expenses as a percentage of net sales for the second quarter of fiscal 2011 were 17%, the same as for the second quarter of fiscal 2010. The discussions of the Groups' operating income above describe the fluctuation in the selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in the second quarter of fiscal 2011 included a lower estimated annual incentive plan bonus accrual. The incentive bonus expense was based on performance targets that are established for each fiscal year. The lower bonus expense was partially offset by increased spending for research and development, higher depreciation expense for computer software and equipment and additional compensation expense related to restricted stock awards.

Interest expense was \$193,000 higher for the second quarter of fiscal 2011 compared to the same period in fiscal 2010. Interest expense increased due to the discontinued capitalization of interest for a product-related capital project and additional interest on new debt issued in the second quarter of fiscal 2011. See Liquidity and Capital Resources below for more information on the new debt. Interest income was \$15,000 lower in the second quarter of fiscal 2011 due to less interest earned on a lease receivable, which exceeded the additional interest received on higher average investment balances at a higher average interest rate.

Our effective tax rate was 30% of pre-tax income in the second quarter of fiscal 2011 compared to the 26% effective tax rate for the full year of fiscal 2010. An adjustment was made in the second quarter to bring the fiscal 2011 six month tax rate to 29%. The effective tax rate for fiscal 2011 is based on the projected composition and level of our taxable income for the year. The tax rate in fiscal 2010 reflected the utilization of prior period Alternative Minimum Tax credits.

## FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the first six months of fiscal 2011 were \$6,180,000, a decrease of 17% from net sales of \$7,462,000 during the first six months of fiscal 2010. Net sales by our foreign subsidiaries represented 5% of our consolidated net sales during the first six months of fiscal 2011 and 7% of our consolidated net sales during the first six months of fiscal 2010. Net sales declined 15% for our Canadian subsidiary and 28% for our United Kingdom subsidiary. Cat litter sales were lower for our Canadian subsidiary due to the loss of a customer and lower sales to existing customers. The impact of this sales decline was lessened by the relative strength of the Canadian Dollar compared to the U.S. Dollar. The Canadian Dollar was about 4% stronger on average against the U.S. Dollar for the first six months of fiscal 2011 compared to the first six months of fiscal 2010, which resulted in higher sales values after translation to U.S. Dollars. Net sales of bleaching earth and industrial absorbents by our United Kingdom subsidiary declined due primarily to continued weakness in industrial markets.

For the first six months of fiscal 2011, our foreign subsidiaries reported a net loss of \$362,000, compared to net income of \$168,000 reported in the first six months of fiscal 2010. The decrease in the net income was due primarily

to the lower sales described above.

Identifiable assets of our foreign subsidiaries as of January 31, 2011 were \$9,105,000 compared to \$8,997,000 as of January 31, 2010. The increase is primarily due to higher cash and cash equivalents and accounts receivable partially offset by lower inventories and a reduction in net fixed assets.

Net sales by our foreign subsidiaries during the second quarter of fiscal 2011 were \$3,132,000, a decrease of 14% from net sales of \$3,645,000 during the second quarter of fiscal 2010. Net sales by our foreign subsidiaries represented 5% of our consolidated net sales during the second quarter of fiscal 2011, compared to 7% during the second quarter of fiscal 2010. Net sales declined 14% for both our Canadian and United Kingdom subsidiaries. Cat litter sales were lower for our Canadian subsidiary due to the loss of a customer and lower sales to existing customers. The impact of this sales decline was lessened by the relative strength of the Canadian Dollar compared to the U.S. Dollar. The Canadian Dollar was about 4% stronger on average against the U.S. Dollar for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010, which resulted in higher sales values after translation to U.S. Dollars. Net sales of bleaching earth and industrial absorbents by our United Kingdom subsidiary declined due primarily to continued weakness in the marketplace.

For the second quarter of fiscal 2011, our foreign subsidiaries reported a net loss of \$158,000, compared to a net loss of \$132,000 in the second quarter of fiscal 2010. The decrease in the net income was due primarily to the lower sales described above.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, the purchasing and upgrading of real estate, equipment and facilities, funding new product development and investing in infrastructure and potential acquisitions. We principally have used cash generated from operations and, to the extent needed, issuance of debt securities and borrowings under our credit facilities to fund these requirements. Cash and cash equivalents increased \$520,000 during the first six months of fiscal 2011 to \$19,282,000 at January 31, 2011.

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

|                                                              | Six Months Ended    |                        |
|--------------------------------------------------------------|---------------------|------------------------|
|                                                              | January 31,<br>2011 | January<br>31,<br>2010 |
| Net cash provided by operating activities                    | \$ 7,256            | \$ 13,763              |
| Net cash used in investing activities                        | (20,167)            | (2,476)                |
| Net cash provided by (used in) financing activities          | 13,517              | (2,266)                |
| Effect of exchange rate changes on cash and cash equivalents | (86 )               | 4                      |
| Net increase in cash and cash equivalents                    | \$ 520              | \$ 9,025               |

### Net cash provided by operating activities

Net cash provided by operations was \$7,256,000 for the first six months of fiscal 2011, compared to \$13,763,000 for the first six months of fiscal 2010. The change was due primarily to working capital fluctuations. For the first six months of fiscal years 2011 and 2010, the primary components of working capital that impacted operating cash flows were as follows:

Accounts receivable, less allowance for doubtful accounts, decreased \$202,000 in the first six months of fiscal 2011. Net sales in the last month of the second quarter of fiscal 2011 were less than net sales in the last month of the fourth quarter of fiscal 2010. Accounts receivable, less allowance for doubtful accounts, decreased \$1,790,000 in the first six months of fiscal 2010 due to lower sales in the second quarter of fiscal 2010 compared to sales in the fourth quarter of fiscal 2009. The change in both periods is also subject to timing of sales and collections and the payment terms provided to various customers.

Inventories increased \$1,231,000 in the first six months of fiscal 2011 compared to a decrease of \$810,000 in the same period in fiscal 2010. Inventories increased in the first six months of fiscal 2011 due to higher costs. In the first six months of fiscal 2010, packaging inventories decreased primarily due to lower sales requirements and lower costs. Supplies inventories decreased in the first six months of fiscal 2010 due to the adjustment of an overstatement

that had accumulated over a number of years.

Prepaid expenses increased \$398,000 in the first six months of fiscal 2011 and decreased \$109,000 in the first six months of fiscal 2010. The increase in prepaid insurance outweighed the decrease in prepaid repair expense in the first six months of fiscal 2011, while the opposite occurred over the same period in fiscal 2010. Prepaid repair expense decreased in both periods due to the timing of repairs and the ongoing efforts to improve spare parts inventory management. The timing of insurance premium payments resulted in an increase in prepaid expenses in both years.

Other assets increased \$231,000 in the first six months of fiscal 2011 and decreased \$329,000 in the first six months of fiscal 2010. The increase in the first six months of fiscal 2011 included capitalized costs related to the issuance of new debt. The decrease in the first six months of fiscal 2010 included the reclassification of the current portion of a lease receivable.

Accounts payable increased \$1,468,000 in the first six months of fiscal 2011 compared to an increase of \$285,000 in the first six months of fiscal 2010. Trade payables increased in fiscal 2011 due to higher costs for goods and services used in the manufacture of our products. Both years were subject to normal fluctuations in the timing of payments.



Accrued expenses decreased \$2,263,000 in the first six months of fiscal 2011 compared to an increase of \$783,000 in the first six months of fiscal 2010. Accrued salaries included the discretionary bonus accrual, which in both years decreased by the payout of the prior fiscal year's bonus accrual and increased by the current fiscal year's first six month bonus accrual. The prior year bonus paid out in fiscal 2011 was greater than the bonus paid out in fiscal 2010. In addition, the amount accrued for the first six months of fiscal 2011 was less than the amount accrued for the same period in fiscal 2010. Accrued freight varied in both years due to the timing of payments and shipments at quarter-end, which resulted in a larger increase for the first six months of fiscal 2010.

Deferred compensation decreased \$29,000 in the first six months of fiscal 2011 compared to an increase of \$388,000 in the first six months of fiscal 2010. The first payout of an executive deferred bonus award under our annual incentive plan occurred during the first six months of fiscal 2011. In the first six months of fiscal 2010, employee deferrals and interest on accumulated deferred compensation balances exceeded payouts.

Other liabilities increased \$935,000 in the first six months of fiscal 2011 compared to an increase of \$893,000 in the first six months of fiscal 2010. Both years' increases were due primarily to additional accruals for employee postretirement benefits.

#### Net cash used in investing activities

Cash used in investing activities was \$20,167,000 in the first six months of fiscal 2011 compared to \$2,476,000 in the first six months of fiscal 2010. Purchases of investment securities were \$15,525,000 greater than dispositions in the first six months of fiscal 2011 due to the investment of cash received from the issuance of new debt. In the first six months of fiscal 2010, dispositions of investment securities exceeded purchases by \$2,005,000. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. Cash used for capital expenditures of \$4,773,000 in the first six months of fiscal 2011 included replacement of machinery, land purchases and other capital projects at our manufacturing facilities. Capital expenditures for the same period in fiscal 2010 of \$4,818,000 included approximately \$2,300,000 to purchase approximately 800 acres of land near our Georgia production plant, which we believe contain deposits of high quality mineral reserves.

#### Net cash provided by (used in) financing activities

Cash provided by financing activities was \$13,517,000 in the first six months of fiscal 2011 compared to cash used in financing activities of \$2,266,000 in the first six months of fiscal 2010. Issuance of new debt during the first six months of fiscal 2011 provided \$18,500,000 in additional cash. Payments on long-term debt in the first six months of fiscal 2011 were \$1,500,000 compared to \$200,000 in the first six months of fiscal 2010. Dividend payments in the first six months of fiscal 2011 of \$2,103,000 were higher than the \$1,991,000 paid during the same period of fiscal 2010 due to a dividend rate increase. In addition, cash used to purchase treasury stock was \$2,194,000 and \$538,000 in the first six months of fiscal 2011 and 2010, respectively. Proceeds from issuance of Common Stock and treasury stock in connection with stock option exercises were \$548,000 and \$349,000 in the first six months of fiscal 2011 and 2010, respectively.

#### Other

Total cash and investment balances held by our foreign subsidiaries of \$1,718,000 at January 31, 2011 were higher than the January 31, 2010 balances of \$1,490,000 due to a reduction in working capital. Current assets, excluding cash and investments, were flat and current liabilities were higher at January 31, 2011 compared to January 31, 2010.

As part of our normal course of business, we guarantee certain debts and trade payables of our wholly owned subsidiaries. These arrangements are made at the request of the subsidiaries' creditors because separate financial statements are not distributed for the wholly owned subsidiaries. There were no such guarantees as of January 31, 2010, although we had guarantees in prior quarters and expect to have them in the future.

We have a \$15,000,000 unsecured revolving credit agreement with Harris N.A. ("Harris") which will expire December 31, 2011. The credit agreement provides that we may select a variable rate based on either Harris' prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and Harris. At January 31, 2011, the variable rates would have been 3.25% for Harris' prime-based rate or 1.16% for LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions (including a limitation on capital expenditures), limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of January 31, 2011 and 2010, no borrowings were outstanding under this credit facility and we were in compliance with its covenants.

On November 12, 2010, we sold at aggregate face value \$18,500,000 in senior promissory notes to The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, Forethought Life Insurance Company, Physicians Mutual Insurance Company and BCBSM, Inc. dba Blue Cross and Blue Shield of Minnesota pursuant to a Note Agreement dated November 12, 2010 (the "Note Agreement"). The Notes bear interest at 3.96% per annum and mature on August 1, 2020. The proceeds of the sale may be used to fund future principal payments of our debt, acquisitions, stock repurchases, capital expenditures and for working capital purposes. The Note Agreement contains 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.

As of January 31, 2011, we had remaining authority to repurchase 131,095 shares of common stock under a repurchase plan approved by the Board of Directors. These repurchases may be made on the open market (pursuant to Rule 10b5-1 plans or otherwise) or in negotiated transactions and the timing and amount of shares repurchased will be determined by our management.

We believe that cash flow from operations, availability under our revolving credit facility, proceeds from our sale of senior promissory notes and current cash and investment balances will provide adequate cash funds for foreseeable working capital needs, capital expenditures and debt service obligations for at least the next 12 months. We currently expect cash requirements for capital expenditures in fiscal 2011 to be higher than for capital expenditures in fiscal 2010. Our capital requirements are subject to change as business conditions warrant and opportunities arise. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements, including, but not limited to, the credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

The tables in the following subsection summarize our contractual obligations and commercial commitments at January 31, 2011 for the time frames indicated.

#### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

| Contractual Obligations            | Total        | Payments Due by Period |              |              |               |
|------------------------------------|--------------|------------------------|--------------|--------------|---------------|
|                                    |              | Less Than 1 Year       | 1 – 3 Years  | 4 – 5 Years  | After 5 Years |
| Long-Term Debt                     | \$35,300,000 | \$ 4,100,000           | \$ 8,800,000 | \$ 6,980,000 | \$15,420,000  |
| Interest on                        |              |                        |              |              |               |
| Long-Term Debt                     | 7,774,000    | 1,484,000              | 2,669,000    | 1,718,000    | 1,903,000     |
| Capital Leases                     | 56,000       | 49,000                 | 7,000        | --           | --            |
| Operating Leases                   | 10,429,000   | 2,540,000              | 2,884,000    | 2,036,000    | 2,969,000     |
| Unconditional Purchase Obligations | 679,000      | 679,000                | --           | --           | --            |
| Total Contractual Cash Obligations | \$54,238,000 | \$ 8,852,000           | \$14,360,000 | 10,734,000   | \$20,292,000  |

We plan to make a contribution to our defined benefit pension plan in fiscal 2011 of approximately \$1,200,000. We have not presented this obligation in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets and actuarial assumptions. See Item 3. Quantitative and Qualitative

Disclosures About Market Risk below for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

The unconditional purchase obligations in the table above include forward purchase contracts we have entered into for a portion of our natural gas fuel needs for fiscal 2011. As of January 31, 2011, the remaining purchase obligation for fiscal 2011 was \$679,000 for 80,000 MMBtu. These contracts were entered into in the normal course of business and no contracts were entered into for speculative purposes.

|                              | Amount of Commitment Expiration Per Period |                     |             |             |                  |
|------------------------------|--------------------------------------------|---------------------|-------------|-------------|------------------|
|                              | Total                                      | Less Than 1<br>Year | 1 – 3 Years | 4 – 5 Years | After 5<br>Years |
| Other Commercial Commitments | \$32,700,000                               | \$29,993,000        | \$2,707,000 | \$--        | \$--             |

The other commercial commitments in the table above represent open purchase orders, including blanket purchase orders, for items such as packaging, additives and pallets used in the normal course of operations. The expected timing of payments for these obligations is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements. Estimates are revised periodically. Actual results could differ from these estimates.

See the information concerning our critical accounting policies included under Management’s Discussion of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2010 filed with the Securities and Exchange Commission, which is incorporated by reference in this Form 10-Q.

#### Recently Adopted Accounting Standards

We adopted the required portions of FASB guidance issued in July 2010 under Accounting Standards Codification (“ASC”) 310-10, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The guidance effective for this Quarterly Report on Form 10-Q for the quarter ending January 31, 2011 required new disclosures to provide a greater level of disaggregated information about the credit quality of financing receivables, including credit quality indicators, past due information and modifications of financing receivables. We had no material financing receivables as of January 31, 2011; therefore, the adoption of this guidance did not result in any new disclosures in the notes to the unaudited consolidated financial statements.

#### Recently Issued Accounting Standards

In January 2010, the FASB issued guidance under ASC 820-10, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, that requires new disclosures related to Level 3 fair value measurements. Adoption of this guidance may result in enhanced disclosures beginning with our Quarterly Report on Form 10-Q for the quarter ending October 31, 2011 and will not have a material impact on the Consolidated Financial Statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to foreign currency fluctuation risk, primarily U.S. Dollar/British Pound, U.S. Dollar/Euro and U.S. Dollar/Canadian Dollar, as it relates to certain accounts receivables and our foreign operations. Foreign currency denominated accounts receivable is a small fraction of our consolidated accounts receivable. We are also subject to translation exposure of our foreign subsidiaries' financial statements. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated sales or net income. We do not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates. We believe that the foreign currency fluctuation risk is not material to our consolidated financial statements.

We are exposed to market risk as it relates to the investments that make up our plan assets under our defined benefit pension plan. The fair value of these assets is subject to change due to fluctuations in the financial markets. 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 fluid purification, animal health and agricultural markets, principally as a result of the risk of increasing regulation of the food chain throughout the world, but particularly in the United States and Europe. We actively monitor developments in this area, both directly and through trade organizations of which we are a member.

We are exposed to commodity price risk with respect to fuel. We have contracted for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. As of January 31, 2011, we have purchased natural gas contracts representing approximately 23% of our planned kiln fuel needs for fiscal 2011. We estimate the weighted average cost of these natural gas contracts in fiscal 2011 to be approximately 4% lower than the contracts in fiscal 2010; however, this average will change if we continue to buy natural gas contracts. All contracts are related to the normal course of business and no contracts are entered into for speculative purposes.

The tables below provide information about our natural gas purchase contracts, which are sensitive to changes in commodity prices, specifically natural gas prices. For the purchase contracts outstanding at January 31, 2011, the table presents the notional amounts in MMBtu's, the weighted average contract prices, and the total dollar contract amount, which will mature by July 31, 2011. The Fair Value was determined using the "Most Recent Settle" price for the "Henry Hub Natural Gas" option contract prices as listed by the New York Mercantile Exchange on March 7, 2011.

| Commodity Price Sensitivity             |          |       |
|-----------------------------------------|----------|-------|
| Natural Gas Future Contracts            |          |       |
| For the Six Months Ending July 31, 2011 |          |       |
|                                         | Expected | Fair  |
|                                         | 2011     | Value |
|                                         | Maturity |       |
| Natural Gas Future                      |          |       |
| Volumes (MMBtu)                         | 80,000   | --    |
|                                         | \$ 8.49  | --    |

|                                                                                     |          |          |
|-------------------------------------------------------------------------------------|----------|----------|
| Weighted Average<br>Price (Per MMBtu)<br>Contract Amount (\$<br>U.S., in thousands) | \$ 678.9 | \$ 323.3 |
|-------------------------------------------------------------------------------------|----------|----------|

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

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended January 31 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.



## PART II – OTHER INFORMATION

Items 1, 1A, and 3 of this Part II are either inapplicable or are answered in the negative and are omitted pursuant to the instructions to Part II.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended January 31, 2011, we did not sell any securities which were not registered under the Securities Act. The following chart summarizes Common Stock repurchases during this period.

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

| For the Three Months Ended January 31, 2011 | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that may yet be Purchased Under Plans or Programs <sup>2</sup> |
|---------------------------------------------|--------------------------------------|----------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| November 1, 2010 to November 30, 2010       | 28,637                               | \$ 21.77                         | 28,637                                                                               | 181,306                                                                                     |
| December 1, 2010 to December 31, 2010       | 18,127                               | \$ 21.75                         | 18,127                                                                               | 163,179                                                                                     |
| January 1, 2011 to January 31, 2011         | 32,084                               | \$ 20.75                         | 32,084                                                                               | 131,095                                                                                     |

<sup>1</sup> The table summarizes repurchases of (and remaining authority to repurchase) shares of our Common Stock. We did not repurchase any shares of our Class B Stock during the period in question, and no shares of our Class A Common Stock are currently outstanding. Descriptions of our Common Stock, Class B Stock and Class A Common Stock are contained in Note 7 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2010 filed with the SEC.

<sup>2</sup> On October 10, 2005, our Board of Directors authorized the repurchase of up to 500,000 shares of Common Stock, with repurchases to be made from time to time in the discretion of our management and in accordance with applicable laws, rules and regulations. On March 11, 2010, our Board of Directors authorized the repurchase of an additional 250,000 shares of Common Stock. These authorizations do not have a stated expiration date. The share numbers in this column indicate the number of shares of Common Stock that may yet be repurchased under these authorizations. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock, and no shares of Class A Common Stock are currently outstanding.

## ITEM 4. MINE SAFETY DISCLOSURE

Our mining operations are subject to regulation by the Mine Safety and Health Administration (“MSHA”) under authority of the Federal Mine Safety and Health Act of 1977, as amended (the “Mine Act”). 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 (the “Dodd-Frank Act”) and the recently proposed Item 106 of Regulation S-K is included in Exhibit 99.1 to this quarterly report.

ITEM 6. EXHIBITS

| Exhibit<br>No. | Description                                                                                                                                                                                                                                                                                                                             | SEC Document Reference                                                                                                             |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| 10.1           | \$18,500,000 Note Agreement dated as of November 12, 2010, among Oil-Dri Corporation of America, The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, Forethought Life Insurance Company, Physicians Mutual Insurance Company and BCBSM, Inc. dba Blue Cross and Blue Shield of Minnesota. | Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on November 16, 2010. |
| <u>11</u>      | Statement re: Computation of Earnings per Share.                                                                                                                                                                                                                                                                                        | Filed herewith.                                                                                                                    |
| <u>31</u>      | Certifications pursuant to Rule 13a – 14(a).                                                                                                                                                                                                                                                                                            | Filed herewith.                                                                                                                    |
| <u>32</u>      | Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                              | Furnished herewith.                                                                                                                |
| <u>99.1</u>    | Mine Safety Disclosure                                                                                                                                                                                                                                                                                                                  | Filed herewith.                                                                                                                    |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OIL-DRI CORPORATION OF AMERICA  
(Registrant)

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

BY /s/ Jeffrey M. Libert  
Jeffrey M. Libert  
Vice President and Chief Financial Officer

BY /s/ Daniel T. Smith  
Daniel T. Smith  
Vice President, Chief Accounting Officer and Controller

Dated: March 10, 2011

EXHIBITS

Exhibit  
No.

Description

10.11 \$18,500,000 Note Agreement dated as of November 12, 2010, among Oil-Dri Corporation of America, The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company, Forethought Life Insurance Company, Physicians Mutual Insurance Company and BCBSM, Inc. dba Blue Cross and Blue Shield of Minnesota.

11 Statement re: Computation of Earnings per Share.

31 Certifications pursuant to Rule 13a – 14(a).

32 Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.

99.1 Mine Safety Disclosure

1 Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on November 16, 2010.

Note: Stockholders may receive copies of the above listed exhibits, without fee, by written request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213, by telephone (312) 321-1515 or by e-mail to info@oildri.com.