

Oil-Dri Corp of America
Form 10-Q
June 07, 2017

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 April 30, 2017

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 36-2048898
(State or other jurisdiction of incorporation or (I.R.S. Employer
organization) Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for at least the past 90 days. Yes 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 30, 2017.
Common Stock – 5,107,796 Shares and Class B Stock – 2,188,771 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 that we file with the Securities and Exchange Commission (“SEC”), contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “assume,” and variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2016. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

TRADEMARK NOTICE

Cat's Pride, Fresh & Light, Fresh & Light Ultimate Care and Oil-Dri are registered trademarks of Oil-Dri Corporation of America. Varium is a trademark of Oil-Dri Corporation of America.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

ASSETS	(unaudited) April 30, 2017	July 31, 2016
Current Assets		
Cash and cash equivalents	\$ 13,603	\$ 18,629
Short-term investments	18,700	10,184
Accounts receivable, less allowance of \$782 and \$753 at April 30, 2017 and July 31, 2016, respectively	31,969	30,386
Inventories	23,813	23,251
Deferred income taxes	3,884	3,884
Prepaid repairs expense	3,905	3,938
Prepaid expenses and other assets	2,203	901
Total Current Assets	98,077	91,173
Property, Plant and Equipment		
Cost	219,715	218,025
Less accumulated depreciation and amortization	(138,172)	(137,314)
Total Property, Plant and Equipment, Net	81,543	80,711
Other Assets		
Goodwill	9,034	9,034
Trademarks and patents, net of accumulated amortization of \$287 and \$261 at April 30, 2017 and July 31, 2016,	1,136	916

respectively			
Customer list, net of			
accumulated			
amortization			
of \$4,315 and	3,469		4,325
\$3,460 at April 30,			
2017 and July 31,			
2016, respectively			
Deferred income	12,239		12,754
taxes			
Other	6,555		5,902
Total Other Assets	32,433		32,931
Total Assets	\$ 212,053		\$ 204,815

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

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	(unaudited)	
	April 30, 2017	July 31, 2016
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable	\$ 3,083	\$ 3,083
Accounts payable	8,105	6,635
Dividends payable	1,485	1,477
Accrued expenses:		
Salaries, wages and commissions	7,409	8,656
Trade promotions and advertising	2,848	2,855
Freight	2,203	1,579
Other	7,638	6,455
Total Current Liabilities	32,771	30,740
Noncurrent Liabilities		
Notes payable, net of unamortized debt issuance costs of \$96 and \$118 at April 30, 2017 and July 31, 2016, respectively	9,154	12,215
Deferred compensation	11,022	10,504
Pension and postretirement benefits	32,758	32,492
Other	3,560	3,313
Total Noncurrent Liabilities	56,494	58,524
Total Liabilities	89,265	89,264
Stockholders' Equity		
Common Stock, par value \$.10 per share, issued 8,015,166 shares at April 30, 2017 and 7,982,243 shares at July 31, 2016	802	798
Class B Stock, par value \$.10 per share, issued 2,513,512 shares at April 30, 2017 and 2,515,735 shares at July 31, 2016	251	252
Additional paid-in capital	35,676	34,294
Retained earnings	154,966	149,945
Accumulated other comprehensive loss:		
Pension and postretirement benefits	(13,000)	(13,867)
Cumulative translation adjustment	(206)	(155)
Total accumulated other comprehensive loss	(13,206)	(14,022)
Less Treasury Stock, at cost (2,907,370 Common and 324,741 Class B shares at April 30, 2017 and 2,912,953 Common and 324,741 Class B shares at July 31, 2016)	(55,701)	(55,716)
Total Stockholders' Equity	122,788	115,551
Total Liabilities & Stockholders' Equity	\$ 212,053	\$ 204,815

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 Nine Months	
	Ended April 30,	
	2017	2016
Net Sales	\$ 196,531	\$ 197,397
Cost of Sales	(138,900)	(139,114)
Gross Profit	57,631	58,283
Selling, General and Administrative Expenses	(45,252)	(46,342)
Income from Operations	12,379	11,941
Other (Expense) Income		
Interest expense	(722)	(768)
Interest income	38	18
Other, net	(4)	185
Total Other Expense, Net	(688)	(565)
Income Before Income Taxes	11,691	11,376
Income Tax Expense	(2,221)	(3,024)
Net Income	9,470	8,352
Retained Earnings:		
Balance at beginning of period	149,945	142,095
Cash dividends declared and treasury stock issuances	(4,449)	(4,252)
Balance at End of Period	\$ 154,966	\$ 146,195
Net Income Per Share		
Basic Common	\$ 1.41	\$ 1.25
Basic Class B Common	\$ 1.06	\$ 0.94
Diluted Common	\$ 1.29	\$ 1.15
Average Shares Outstanding		
Basic Common	5,015	4,981
Basic Class B Common	2,081	2,049
Diluted Common	7,151	7,085
Dividends Declared Per Share		
Basic Common	\$ 0.6600	\$ 0.6300
Basic Class B Common	\$ 0.4950	\$ 0.4725

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 Nine Months Ended April 30, 2017 2016	
Net Income	\$9,470	\$8,352
Other Comprehensive Income:		
Pension and postretirement benefits (net of tax)	867	457
Cumulative translation adjustment	(51) 142
Other Comprehensive Income	816	599
Total Comprehensive Income	\$10,286	\$8,951

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

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

	(unaudited)	
	For the Three	
	Months Ended	
	April 30,	
	2017	2016
Net Sales	\$64,745	\$64,235
Cost of Sales	(46,964)	(45,667)
Gross Profit	17,781	18,568
Selling, General and Administrative Expenses	(14,035)	(19,803)
Income (Loss) from Operations	3,746	(1,235)
Other Income (Expense)		
Interest expense	(233)	(257)
Interest income	22	9
Other, net	233	250
Total Other Income, Net	22	2
Income (Loss) Before Income Taxes	3,768	(1,233)
Income Tax (Expense) Benefit	(557)	341
Net Income (Loss)	3,211	(892)
Net Income (Loss) Per Share		
Basic Common	\$0.48	\$(0.14)
Basic Class B	\$0.36	\$(0.10)
Diluted Common	\$0.44	\$(0.13)
Average Shares Outstanding		
Basic Common	5,022	4,986
Basic Class B	2,088	2,055
Diluted Common	7,164	7,041
Dividends Declared Per Share		
Basic Common	\$0.2200	\$0.2100
Basic Class B	\$0.1650	\$0.1575

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

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

	(unaudited)	
	For the Three	
	Months Ended	
	April 30,	
	2017	2016
Net Income (Loss)	\$3,211	\$(892)
Other Comprehensive Income (Loss):		
Pension and postretirement benefits (net of tax)	289	149
Cumulative translation adjustment	(100)	292
Other Comprehensive Income	189	441
Total Comprehensive Income (Loss)	\$3,400	\$(451)

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

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

	(unaudited)	
	For the Nine	
	Months Ended	
	April 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$9,470	\$8,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,553	8,991
Amortization of investment net discount	(16)	(6)
Non-cash stock compensation expense	1,137	962
Excess tax benefits for share-based payments	(228)	(68)
Deferred income taxes	531	280
Provision for bad debts and cash discounts	32	149
Loss on the sale of fixed assets	292	199
(Increase) Decrease in assets:		
Accounts receivable	(1,665)	2,140
Inventories	(617)	(3,653)
Prepaid expenses	(1,171)	(593)
Other assets	(669)	(270)
Increase (Decrease) in liabilities:		
Accounts payable	1,848	(1,383)
Accrued expenses	627	3,365
Deferred compensation	518	139
Pension and postretirement benefits	1,133	757
Other liabilities	258	48
Total Adjustments	11,563	11,057
Net Cash Provided by Operating Activities	21,033	19,409
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(10,418)	(7,052)
Proceeds from sale of property, plant and equipment	60	256
Purchases of short-term investments	(33,006)	(26,977)
Dispositions of short-term investments	24,506	18,680
Net Cash Used in Investing Activities	(18,858)	(15,093)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(3,083)	(3,484)
Dividends paid	(4,441)	(4,190)
Purchase of treasury stock	(135)	(18)
Proceeds from issuance of treasury stock	—	185
Proceeds from issuance of common stock	170	96
Excess tax benefits for share-based payments	228	68
Net Cash Used in Financing Activities	(7,261)	(7,343)
Effect of exchange rate changes on cash and cash equivalents	60	83
Net Decrease in Cash and Cash Equivalents	(5,026)	(2,944)
Cash and Cash Equivalents, Beginning of Period	18,629	20,138

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Cash and Cash Equivalents, End of Period

\$13,603 \$17,194

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

	(unaudited)	
	For the Nine	
	Months Ended	
	April 30,	
	2017	2016
Supplemental disclosure of non-cash investing and financing activities:		
Capital expenditures accrued, but not paid	\$554	\$353
Cash dividends declared and accrued, but not paid	\$1,485	\$1,407

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 in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the Consolidated Financial Statements and related notes for the fiscal year ended July 31, 2016 included in our Annual Report on Form 10-K filed with the SEC.

The unaudited Condensed Consolidated Financial Statements include the accounts of Oil-Dri Corporation of America and its subsidiaries. All significant intercompany transactions are eliminated. Except as otherwise indicated herein or as the context otherwise requires, references to “Oil-Dri,” the “Company,” “we,” “us” or “our” refer to Oil-Dri Corporation of America and its subsidiaries.

The unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals and reclassifications which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three and nine months ended April 30, 2017 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2017.

The preparation of the unaudited Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates and assumptions are revised periodically. Actual results could differ from these estimates.

We recognize revenue when risk of loss and title are transferred under the terms of our sales agreements with customers at a fixed and determinable price and collection of payment is probable. Trade promotion reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. Such trade promotion costs are netted against sales. Sales returns and allowances are not material.

Selling, general and administrative expenses include salaries, wages and benefits associated with staff outside the manufacturing and distribution functions, all advertising and marketing-related costs, any miscellaneous trade spending expenses not required to be included in net sales, research and development costs, depreciation and amortization related to assets outside the manufacturing and distribution process and all other non-manufacturing and non-distribution expenses.

We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific customer accounts. A customer account is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment.

We mine sorbent materials on property that we either own or lease as part of our overall operations. A significant part of our overall mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material used in a majority of our production processes. These stripping costs are

treated as a variable inventory production cost and are included in cost of sales in the period they are incurred. We defer and amortize the pre-production overburden removal costs associated with opening a new mine.

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

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

2. NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance under Accounting Standard Codification (“ASC”) 606, Revenue from Contracts with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. In March, April, May and December of 2016, the FASB issued amended guidance that further clarifies the principles for recognizing revenue. We are currently in the process of performing a comprehensive evaluation of these requirements, including the impact on how we record certain incentives and advertising arrangements. The implementation date for this guidance was deferred and will now be effective at the beginning of our first quarter of fiscal year 2019. Transition options to implement this guidance include either a full or modified retrospective approach and early adoption is permitted. We have not yet selected an implementation method.

In August 2014, the FASB issued guidance under ASC 205, Presentation of Financial Statements - Going Concern, which defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This guidance will be effective for the fourth quarter of fiscal year 2017. This pronouncement requires additional disclosures only in certain circumstances, and we do not expect a significant impact on our Consolidated Financial Statements.

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

In November 2015, the FASB issued guidance under ASC 740, Balance Sheet Classification of Deferred Taxes, which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. This guidance is effective for our first quarter of fiscal year 2018 and early adoption is permitted. The guidance may be applied either prospectively or retrospectively to all periods presented. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In January 2016, the FASB issued guidance under ASC 825, Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The provisions relevant to us at this time require the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, as well as eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value in such disclosure. This guidance is effective for our first quarter of fiscal year 2019 and early adoption is generally not permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In February 2016, the FASB issued guidance under ASC 842, Leases, which provides that, for leases with a term greater than 12 months, a lessee must recognize in the statement of financial position both a liability to make lease payments and an asset representing its right to use the underlying asset. Other requirements describe expense recognition, as well as financial statement presentation and disclosure. This guidance is effective for our first quarter of fiscal year 2020 using a modified retrospective approach, which includes a number of optional practical expedients. Early adoption is permitted. We are currently evaluating the impact of the adoption of this requirement on our

Consolidated Financial Statements.

In March 2016, the FASB issued guidance under ASC 718, Compensation-Stock Compensation, which simplifies several aspects of the accounting for share-based payment transactions, including accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. The new guidance also clarifies the statement of cash flows presentation for certain components of share-based awards. This guidance is effective for our first quarter of fiscal year 2018, with early adoption permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements. In June 2016, the FASB issued guidance under ASC 326, Financial Instruments-Credit Losses, which requires companies to utilize an impairment model for most financial assets measured at amortized cost and certain other financial instruments, which include trade and other receivables, loans and held-to-maturity debt securities, to record an allowance for credit risk based on expected losses rather than incurred losses. In addition, this new guidance changes the recognition method for credit losses on available-

for-sale debt securities, which can occur as a result of market and credit risk, as well as additional disclosures. In general, this guidance will require modified retrospective adoption for all outstanding instruments that fall under this guidance. This guidance is effective for our first quarter of fiscal year 2021. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In March 2017, the FASB issued guidance under ASC 715, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires presenting the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. This standard also requires that other components of the net periodic benefit cost be presented separately from the line item(s) that includes service costs and outside of any subtotal of operating income, if one is presented, on a retrospective basis. Additionally, the new guidance limits the components that are eligible for capitalization in assets to only the service cost component. The new guidance is effective for our first quarter of fiscal year 2019, with early adoption permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

There have been no other accounting pronouncements issued but not yet adopted by us which are expected to have a material impact on our Consolidated Financial Statements.

Recently Adopted Pronouncements

For the first quarter of fiscal 2017, we adopted FASB guidance under ASC 835, Simplifying the Presentation of Debt Issuance Cost, which requires debt issuance costs related to notes payable to be presented as a direct deduction from the associated debt liability rather than as an asset. Amortization of these costs will continue to be reported as interest expense. We adopted this guidance retrospectively, which resulted in a decrease in Other Assets of \$118,000 with a corresponding decrease in Noncurrent Liabilities in our Condensed Consolidated Balance Sheets as of July 31, 2016. The new requirements had no impact on our results of operations or cash flows.

3. INVENTORIES

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

	April 30, July 31,	
	2017	2016
Finished goods	\$ 14,684	\$ 14,032
Packaging	5,092	4,672
Other	4,037	4,547
Total Inventories	\$ 23,813	\$ 23,251

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 detailed review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The obsolescence reserve not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at April 30, 2017 and July 31, 2016 were \$831,000 and \$806,000, respectively.

4. FAIR VALUE MEASUREMENTS

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs for similar assets or liabilities or valuation models whose inputs are observable, directly or indirectly.

Level 3: Unobservable inputs.

Cash equivalents of \$1,256,000 and \$7,626,000 as of April 30, 2017 and July 31, 2016, respectively, were classified as Level 1. These cash instruments are primarily money market mutual funds and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

Short-term investments included U.S. Treasury securities and certificates of deposit. We intend and have the ability to hold our short-term investments to maturity; therefore, these investments were reported at amortized cost, which approximated fair value as of April 30, 2017 and July 31, 2016.

Accounts receivable and accounts payable balances approximated their fair values at April 30, 2017 and July 31, 2016 due to the short maturity and nature of those balances.

Notes payable are reported at the face amount of future maturities. The estimated fair value of notes payable, including current maturities, was \$12,957,000 and \$16,651,000 as of April 30, 2017 and July 31, 2016, respectively. Our debt does not trade on a daily basis in an active market, therefore the fair value estimate is based on market observable borrowing rates currently available for debt with similar terms and average maturities and is classified as Level 2.

We apply fair value techniques on at least an annual basis associated with: (1) valuing potential impairment loss related to goodwill, trademarks and other indefinite-lived intangible assets and (2) valuing potential impairment loss related to long-lived assets. See Note 5 for further information about goodwill and other intangible assets.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible amortization expense was \$306,000 and \$363,000 in the third quarter of fiscal 2017 and 2016, respectively. Intangible amortization expense was \$918,000 and \$1,090,000 for the first nine months of fiscal 2017 and 2016, respectively. Estimated intangible amortization for the remainder of fiscal 2017 is \$306,000. Estimated intangible amortization for the next five fiscal years is as follows (in thousands):

2018	\$1,014
2019	\$827
2020	\$657
2021	\$473
2022	\$323

We have one acquired trademark recorded at a cost of \$376,000 that was determined to have an indefinite life and is not amortized.

We performed our annual goodwill impairment analysis in the fourth quarter of fiscal 2016 and no impairment was identified. There have been no triggering events that would indicate a new impairment analysis is needed.

6. PENSION AND OTHER POSTRETIREMENT BENEFITS

The components of net periodic pension and postretirement health benefit costs were as follows:

	Pension Benefits (in thousands)			
	For the Three Months Ended April 30, 2017		For the Nine Months Ended April 30, 2016	
Service cost	\$456	\$370	\$1,369	\$1,126
Interest cost	465	479	1,396	1,446
Expected return on plan assets	(443)	(480)	(1,330)	(1,442)
Amortization of:				
Prior service costs	1	2	2	6
Other actuarial loss	457	239	1,371	735
Net periodic benefit cost	\$936	\$610	\$2,808	\$1,871

	Postretirement Health Benefits (in thousands)			
	For the Three Months Ended April 30, 2017		For the Nine Months Ended April 30, 2016	
Service cost	\$31	\$27	\$94	\$70
Interest cost	20	21	59	62
Amortization of:				
Prior service costs	(2)	(2)	(5)	(5)
Other actuarial loss	11	—	31	—
Net periodic benefit cost	\$60	\$46	\$179	\$127

The postretirement health plan is an unfunded plan. We pay insurance premiums and claims from our assets.

The pension plan is funded based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum contribution required and the maximum contribution allowed under applicable regulations. We contributed \$686,000 and \$1,322,000 to our pension plan during the third quarter and first nine months of fiscal 2017, respectively. We estimate contributions will be \$335,000 for the remainder of fiscal 2017. See Item 3. “Quantitative and Qualitative Disclosures About Market Risk” for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

Assumptions used in the previous calculations were as follows:

Pension Benefits	Postretirement Health Benefits
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	For the Three and Nine Months Ended April 30,			
	2017	2016	2017	2016
Discount rate for net periodic benefit cost	3.36%	4.22%	2.71%	3.51%
Rate of increase in compensation levels	3.50%	3.50%	—	—
Long-term expected rate of return on assets	7.00%	7.50%	—	—

The medical cost trend assumption for postretirement health benefits was 7.35%. The graded trend rate is expected to decrease to an ultimate rate of 4.5% in fiscal 2036.

7. OPERATING SEGMENTS

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

Our operating segments are also our reportable segments. Net sales and operating income for each segment are provided below. Revenues by product line are not provided because it would be impracticable to do so. The accounting policies of the segments are the same as those described in Note 1 of the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016.

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

	Assets	
	April 30, 2017	July 31, 2016
	(in thousands)	
Business to Business Products	\$60,269	\$61,007
Retail and Wholesale Products	92,261	91,626
Unallocated Assets	59,523	52,182
Total Assets	\$212,053	\$204,815

	For the Nine Months Ended April 30,			
	Net Sales		Income	
	2017	2016	2017	2016
	(in thousands)			
Business to Business Products	\$74,893	\$70,919	\$25,033	\$24,049
Retail and Wholesale Products	121,638	126,478	5,996	5,682
Total Sales	\$196,531	\$197,397		
Corporate Expenses			(18,650)	(17,790)
Income from Operations			12,379	11,941
Total Other Expense, Net			(688)	(565)
Income before Income Taxes			11,691	11,376
Income Taxes			(2,221)	(3,024)
Net Income			\$9,470	\$8,352

For the Three Months Ended April
30,

	Net Sales		Income (Loss)	
	2017	2016	2017	2016
	(in thousands)			
Business to Business Products	\$24,159	\$22,473	\$7,810	\$7,304
Retail and Wholesale Products	40,586	41,762	1,516	(4,015)
Total Sales	\$64,745	\$64,235		
Corporate Expenses			(5,580)	(4,524)
Income (Loss) from Operations			3,746	(1,235)
Total Other Income, Net			22	2
Income (Loss) before Income Taxes			3,768	(1,233)
Income Taxes			(557)	341
Net Income (Loss)			\$3,211	\$(892)

8. STOCK-BASED COMPENSATION

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

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan (the “2006 Plan”) permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based and cash-based awards. Our employees and outside directors are eligible to receive grants under the 2006 Plan. The total number of shares of stock subject to grants under the 2006 Plan may not exceed 937,500. Stock options have been granted to our outside directors with a vesting period of one year and stock options granted to employees generally vest 25% two years after the grant date and in each of the three following anniversaries of the grant date. In addition, restricted shares have been issued under the 2006 Plan as described in the restricted stock section below.

Stock Options

A summary of stock options is shown below:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding and exercisable, July 31, 2016	10	\$ 17.00	0.3	\$ 205
Exercised	(10)	\$ 17.00		\$ 211
Options outstanding and exercisable, April 30, 2017	—			

No stock options were exercised in the third quarter of either fiscal 2017 or 2016.

The amount of cash received from the exercise of stock options during the first nine months of fiscal years 2017 and 2016 was \$170,000 and \$281,000, respectively, and the related tax benefit was \$80,000 and \$68,000, respectively.

No stock options were granted during the first nine months of either fiscal year 2017 or 2016.

Restricted Stock

All of our non-vested restricted stock as of April 30, 2017 was issued under the 2006 Plan with vesting periods between two years and five years. There were no restricted shares of Common Stock granted in the third quarter of fiscal 2017. There were 500 restricted shares of Common Stock granted during the third quarter of fiscal 2016.

Stock-based compensation expense related to non-vested restricted stock for the third quarter of fiscal years 2017 and 2016 was \$360,000 and \$324,000, respectively. Stock-based compensation expense related to non-vested restricted stock for the first nine months of fiscal years 2017 and 2016 was \$1,137,000 and \$962,000, respectively.

A summary of restricted stock transactions is shown below:

	Restricted Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested restricted stock outstanding at July 31, 2016	194	\$ 29.09
Granted	31	\$ 36.84
Vested	(39)	\$ 26.38
Forfeitures	(1)	\$ 31.24
Non-vested restricted stock outstanding at April 30, 2017	185	\$ 30.96

9. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the changes in accumulated other comprehensive income by component as of April 30, 2017 (in thousands):

	Pension and Postretirement Health Benefits	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive (Loss) Income
Balance as of July 31, 2016	\$ (13,867)	\$ (155)	\$ (14,022)
Other comprehensive income before reclassifications, net of tax	—	(51)	(51)
Amounts reclassified from accumulated other comprehensive income, net of tax	867	a)—	867
Net current-period other comprehensive income, net of tax	867	(51)	816
Balance as of April 30, 2017	\$ (13,000)	\$ (206)	\$ (13,206)

a) Amount is net of tax expense of \$532,000. Amount is included in the components of net periodic benefit cost for the pension and postretirement health plans. See Note 6 for further information.

10. RELATED PARTY TRANSACTIONS

A member of our Board of Directors is currently the President and Chief Executive Officer of a customer of ours. Total net sales to that customer, including sales to subsidiaries of that customer, were \$142,000 and \$140,000 for the third quarters of fiscal 2017 and 2016, respectively, and were \$320,000 and \$341,000 for the first nine months of fiscal 2017 and 2016, respectively. Outstanding accounts receivable from that customer, and its subsidiaries, were \$40,000 and \$28,000 as of April 30, 2017 and July 31, 2016, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included herein and our Consolidated Financial Statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016. 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, 2016.

OVERVIEW

We develop, mine, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other clay-like sorbent materials. Our principal products include agricultural and horticultural chemical carriers, animal health and nutrition products, bleaching clay and fluid purification aids, cat litter, industrial and automotive floor absorbents and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end consumer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable operating segments based on the different characteristics of our two primary customer groups: Retail and Wholesale Products Group and Business to Business Products Group, as described in Note 7 of the notes to the Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

NINE MONTHS ENDED APRIL 30, 2017 COMPARED TO NINE MONTHS ENDED APRIL 30, 2016

CONSOLIDATED RESULTS

Consolidated net sales for the nine months ended April 30, 2017 were \$196,531,000, compared to net sales of \$197,397,000 for the nine months ended April 30, 2016. Net sales were down for our Retail and Wholesale Products Group, but were up for our Business to Business Products Group. Consolidated net income for the first nine months of fiscal 2017 was \$9,470,000, a 13% increase from net income of \$8,352,000 for the first nine months of fiscal 2016. Both segments reported higher operating income, as described further below. Diluted net income per share was \$1.29 for the first nine months of fiscal 2017, compared to \$1.15 for the first nine months of fiscal 2016.

Consolidated gross profit as a percentage of net sales for the first nine months of fiscal 2017 was 29%, compared to 30% for the first nine months of fiscal 2016. Gross profit in fiscal 2017 was negatively impacted by the cost of natural gas used to operate kilns that dry our clay. The cost of natural gas per manufactured ton was approximately 27% higher than the prior year. Other manufacturing costs per ton produced were up approximately 6% compared to the same period in the prior fiscal year, including higher expenses for employee benefits, depreciation, wages, repairs and salaries. Gross profit was positively impacted by approximately 3% lower packaging costs per manufactured ton. A significant amount of our packaging purchases are subject to contractual price adjustments throughout the year based on underlying commodity prices. Prices for commodities may fluctuate considerably, particularly commodities related to our resin and paper-based packaging. The lower packaging costs reflected favorable commodity prices at the time of the most recent price adjustment.

Total selling, general and administrative expenses were 2% lower for the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The decrease was driven by lower advertising expense in the Retail and Wholesale Products Group. The discussion of the segments' operating incomes below describe the changes in the selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in the first nine months of fiscal 2017 included increased pension expense and additional costs related to the implementation of our new enterprise resource planning software. These higher corporate expenses were partially offset by a lower estimated annual incentive bonus accrual compared to the prior year. The incentive bonus accruals were based on performance targets established for each fiscal year.

Tax expense was 19% of pre-tax income for the first nine months of fiscal 2017, compared to 27% for the first nine months of fiscal 2016. Our effective tax rate was based on the estimated level of our taxable income for the year and the assessment of various deductions, including depletion. The lower fiscal 2017 effective tax rate resulted from an estimated depletion deduction which was a greater percentage of pre-tax income compared to fiscal 2016.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first nine months of fiscal 2017 were \$74,893,000, an increase of \$3,974,000, or 6%, from net sales of \$70,919,000 for the first nine months of fiscal 2016. Net sales of our animal health and nutrition products increased approximately 19%. Sales were higher in domestic and most foreign markets, particularly in Asia. In Latin America, the transition to a new distributor negatively impacted sales. Sales for the first nine months of fiscal 2017 also included customer trials of our new Varium poultry growth promoter. See “Foreign Operations” below for further discussion of increased animal health and nutrition sales by our subsidiary in China. Net sales of our fluids purification products were up approximately 9%. Sales to edible oil producers accounted for much of the sales improvement, which included sales to a new customer in Europe added in the fourth quarter of fiscal 2016. Lower sales from normal ordering fluctuations of customers in the petroleum oil processing industry partially offset this increase. Net sales of our agricultural chemical carrier products were essentially flat compared to the first nine months of the prior year. Sales of our co-packaged coarse cat litter were approximately 8% lower due to fewer tons sold and a price adjustment under our co-packaging agreement.

Selling, general and administrative expenses for the Business to Business Products Group were approximately 2% lower due primarily to lower costs to promote our animal health and nutrition products.

The Business to Business Products Group’s operating income for the first nine months of fiscal 2017 was \$25,033,000, an increase of \$984,000, or 4%, from operating income of \$24,049,000 for the first nine months of fiscal 2016. The benefits of higher sales and lower packaging costs more than offset higher natural gas and other manufacturing costs. See “Consolidated Results” above for further discussion of packaging, natural gas and manufacturing costs.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first nine months of fiscal 2017 were \$121,638,000, a decrease of \$4,840,000, or 4%, from net sales of \$126,478,000 for the first nine months of fiscal 2016. Total cat litter net sales declined approximately 5% compared to the first nine months of the prior year. Lower sales of both our branded and private label cat litters was largely attributed to the decision to exit low margin business with two major customers. Through the first nine months we continued our integrated marketing campaign to generate awareness and trial of lightweight cat litter products, although we spent significantly less for advertising in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. Our promotional efforts delivered higher sales of both our Cat's Pride Fresh & Light Ultimate Care and our private label lightweight scoopable litters for the first nine months of fiscal 2017.

Sales of industrial and automotive absorbent products were essentially flat compared to the first nine months of fiscal 2016. Nine month sales for our subsidiary in Canada were higher than the prior year, while sales for our subsidiary in the United Kingdom were lower. See “Foreign Operations” below for further discussion about the sales and types of products sold by these foreign subsidiaries.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 9% lower compared to the first nine months of fiscal 2016. Advertising expense decreased approximately \$1,400,000 due to lower expenditures for the integrated marketing campaign to promote our Fresh & Light Ultimate Care lightweight cat litter, which began in the second quarter of fiscal 2016. We expect to continue promoting lightweight litter through the remainder of fiscal 2017. However, we plan to reallocate some of our anticipated spending between advertising, which is included in selling, general and administrative expenses, and trade promotions, which are included as a reduction of net sales. Although we expect advertising expense will be significant for the full year of fiscal 2017, the total is anticipated to be down from the corresponding expense in fiscal 2016.

The Retail and Wholesale Products Group's operating income for the first nine months of fiscal 2017 was \$5,996,000, an increase of \$314,000, or 6%, from operating income of \$5,682,000 for the first nine months of fiscal 2016. The reduction in advertising costs, as discussed above, more than offset higher natural gas and other manufacturing costs. See "Consolidated Results" above for further discussion of packaging, natural gas and manufacturing costs.

FOREIGN OPERATIONS

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and our subsidiary in China, which is included in the Business to Business Products Group. Net sales by our foreign subsidiaries during the first nine months of fiscal 2017 were \$9,344,000, a 13% increase compared to net sales of \$8,270,000 during the first nine months of fiscal 2016. Our subsidiary in China reported higher sales for animal health and nutrition products with approximately 29% more tons sold, including sales to new customers. Sales by our subsidiary in Canada increased for branded and private label lightweight cat litter. In addition, a new Canadian distributor provided increased sales of industrial absorbent

products. These increases were partially offset by lower export sales of fluids purification products sold by our subsidiary in the United Kingdom. Net sales by our foreign subsidiaries represented 5% and 4% of our consolidated net sales during the first nine months of fiscal years 2017 and 2016, respectively.

Our foreign subsidiaries reported a net loss of \$41,000 for the first nine months of fiscal 2017 compared to a net loss of \$750,000 for the first nine months of fiscal 2016. The improved profitability was driven primarily by the higher sales.

Identifiable assets of our foreign subsidiaries as of April 30, 2017 were \$7,719,000, compared to \$8,017,000 as of April 30, 2016. The decrease was due primarily to lower net fixed assets, deferred income taxes and accounts receivable, which were partially offset by higher inventories.

THREE MONTHS ENDED APRIL 30, 2017 COMPARED TO THREE MONTHS ENDED APRIL 30, 2016

CONSOLIDATED RESULTS

Consolidated net sales for the three months ended April 30, 2017 were \$64,745,000, compared to net sales of \$64,235,000 for the three months ended April 30, 2016. Net sales were up for our Business to Business Products Group, but were down for our Retail and Wholesale Products Group. Consolidated net income was \$3,211,000 for the third quarter of fiscal 2017, compared to a net loss of \$892,000 for the third quarter of fiscal 2016. Third quarter operating income increased for both our Business to Business Products and Retail and Wholesale Products Groups compared to the prior year. Significantly lower advertising expense in the quarter, as described below, drove improvements in both consolidated net income and the Retail and Wholesale Products Group's operating income. Diluted net income per share was \$0.44 for the third quarter of fiscal 2017, compared to a diluted net loss per share of \$0.13 for the third quarter of fiscal 2016.

Consolidated gross profit as a percentage of net sales for the third quarter of fiscal 2017 was 27%, compared to 29% for the third quarter of fiscal 2016. Higher natural gas and other manufacturing costs more than offset lower freight costs in the third quarter of fiscal 2017. The cost per manufactured ton for natural gas used to operate kilns that dry our clay increased approximately 54%. Other manufacturing costs per ton produced were up approximately 7%, including higher expenses for wages, benefits, repairs and depreciation. Packaging costs were essentially flat compared to the third quarter of the prior fiscal year.

Total selling, general and administrative expenses were 29% lower for the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The discussion of the segments' operating incomes below describe the selling, general and administrative expenses allocated to the operating segments, particularly lower advertising expense in the Retail and Wholesale Products Group. The remaining unallocated corporate expenses in the third quarter of fiscal 2017 included increased pension expense and a higher estimated annual incentive bonus accrual, as well as additional costs related to the implementation of our new enterprise resource planning software. The incentive bonus accruals were based on performance targets established for each fiscal year.

Tax expense was 15% of pre-tax income for the third quarter of fiscal 2017, compared to 28% for the third quarter of fiscal 2016. Our effective tax rate was based on the estimated level of our taxable income for the year and the assessment of various tax deductions, including depletion. The lower fiscal 2017 effective tax rate resulted from an estimated depletion deduction which was a greater percentage of pre-tax income compared to fiscal 2016.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the third quarter of fiscal 2017 were \$24,159,000, an increase of \$1,686,000, or 8%, from net sales of \$22,473,000 for the third quarter of fiscal 2016. Net sales of our fluids purification products were up approximately 13%. Sales to edible oil producers accounted for much of the sales improvement, which included sales to a new customer in Europe added in the fourth quarter of fiscal 2016. Sales of our animal health and nutrition products increased approximately 11% across domestic and foreign markets. Third quarter sales included customer trials of our new Varium poultry growth promoter. See “Foreign Operations” below for further discussion of increased animal health and nutrition sales by our subsidiary in China. Net sales of our agricultural chemical carriers to manufacturers of crop protection products were up slightly compared to the third quarter of the prior year. Sales of co-packaged coarse cat litter were approximately 4% lower than in the third quarter of fiscal 2016 due to fewer tons sold and a price adjustment under our co-packaging agreement.

Selling, general and administrative expenses for the Business to Business Products Group were 3% lower due primarily to lower costs to promote our animal health and nutrition products and collection of a previously reserved account receivable.

The Business to Business Products Group's operating income for the third quarter of fiscal 2017 was \$7,810,000, an increase of \$506,000, or 7%, from operating income of \$7,304,000 in the third quarter of fiscal 2016. The benefits of higher sales and lower selling, general and administrative expenses more than offset increased natural gas and other manufacturing costs. See "Consolidated Results" above for further discussion of manufacturing and packaging costs.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the third quarter of fiscal 2017 were \$40,586,000, a decrease of \$1,176,000, or 3%, from net sales of \$41,762,000 for the third quarter of fiscal 2016. Total cat litter net sales declined approximately 4% compared to the third quarter of the prior year. Significantly less spending for advertising compared to the third quarter of fiscal 2016 contributed to lower branded scoopable litter sales; however, higher sales of our private label lightweight litters partially offset the decline. Lower sales of both our private label and branded coarse litters for the third quarter of fiscal 2017 compared to the prior year reflected the decline of this segment of the market.

Sales of sports products were up approximately 5% compared to the third quarter of fiscal 2016 due to higher volume. Sales of industrial and automotive absorbent products for the quarter were essentially the same as the prior year. Third quarter sales for our subsidiaries in both Canada and the United Kingdom were higher than the prior year. See "Foreign Operations" below for further discussion about the sales and types of products sold by these foreign subsidiaries.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were 52% lower compared to the third quarter of fiscal 2016. The decrease was driven by approximately \$6,400,000 lower advertising expense for our integrated marketing campaign to promote our Fresh & Light Ultimate Care lightweight cat litter, which began in the second quarter of fiscal 2016. We expect to continue promoting lightweight litter through the remainder of fiscal 2017. However, we plan to reallocate some of our anticipated spending between advertising, which is included in selling, general and administrative expenses, and trade promotions, which are included as a reduction of net sales. Although we expect advertising expense will be significant for the full year of fiscal 2017, the total is anticipated to be down from the corresponding expense in fiscal 2016.

The Retail and Wholesale Products Group's operating income for the third quarter of fiscal 2017 was \$1,516,000, compared to an operating loss of \$4,015,000 for the third quarter of fiscal 2016. The increase in operating income was driven by the lower advertising costs discussed above. The reduction in advertising costs more than offset higher natural gas and other manufacturing costs. See "Consolidated Results" above for further discussion of these cost changes.

FOREIGN OPERATIONS

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and our subsidiary in China, which is included in the Business to Business Products Group. Net sales by our foreign subsidiaries during the third quarter of fiscal 2017 were \$2,869,000, a 5% increase compared to net sales of \$2,738,000 in the third quarter of fiscal 2016. Our subsidiary in China reported higher sales for animal health and nutrition products with approximately 4% more tons sold, including sales to new customers. Sales also increased for industrial absorbent products sold by our subsidiary in Canada, due primarily to a new distributor, and for export and domestic sales of fluids purification products by our subsidiary in the United Kingdom. Net sales by our foreign subsidiaries represented approximately 4% of our consolidated net sales during the third quarters of both fiscal 2017 and 2016.

Our foreign subsidiaries reported a net loss of \$339,000 for the third quarter of fiscal 2017 compared to a net loss of \$214,000 for the third quarter of fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include: funding working capital needs; purchasing and upgrading equipment, facilities, information systems and real estate; supporting new product development; investing in infrastructure; repurchasing Common Stock; paying dividends; and business acquisitions. During the first nine months of fiscal 2017, we principally used cash generated from operations to fund these requirements. We also have the ability to borrow under our revolving credit agreement with BMO Harris Bank N.A. (“BMO Harris”), as described further below, however we have not borrowed under the credit agreement in recent years. Cash and cash equivalents decreased \$5,026,000 during the first nine months of fiscal 2017 to \$13,603,000; however, short term investments increased \$8,516,000 during the same period to \$18,700,000 as of April 30, 2017.

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

	For the Nine Months Ended April 30,	
	2017	2016
Net cash provided by operating activities	\$21,033	\$19,409
Net cash used in investing activities	(18,858)	(15,093)
Net cash used in financing activities	(7,261)	(7,343)
Effect of exchange rate changes on cash and cash equivalents	60	83
Net decrease in cash and cash equivalents	\$(5,026)	\$(2,944)

Net cash provided by operating activities

In addition to net income, as adjusted for depreciation and amortization and other non-cash operating activities, the primary sources and uses of operating cash flows for the first nine months of fiscal years 2017 and 2016 were as follows:

Accounts receivable, less allowance for doubtful accounts, increased \$1,633,000 in the first nine months of fiscal 2017 compared to a decrease of \$2,289,000 in the first nine months of fiscal 2016. The change in accounts receivable balances reflected differences in the level and timing of sales and collections, as well as the payment terms provided to various customers.

Inventories increased \$617,000 in the first nine months of fiscal 2017 compared to an increase of \$3,653,000 in the first nine months of fiscal 2016. The substantial increase in fiscal 2016 was due to anticipated sales following the launch of our integrated marketing campaign to promote our Fresh & Light Ultimate Care lightweight cat litter.

Prepaid expenses increased \$1,171,000 in the first nine months of fiscal 2017 compared to an increase of \$593,000 in the first nine months of fiscal 2016. The increase in the first nine months of fiscal 2017 was due primarily to higher prepaid advertising expenses. Prepaid income taxes drove of the increase in the first nine months of fiscal 2016. Prepayments of annual insurance premiums in both fiscal years contributed to the increase in both fiscal years to a lesser extent.

Other assets increased \$669,000 in the first nine months of fiscal 2017 compared to an increase of \$270,000 in the first nine months of fiscal 2016. The increase in fiscal 2017 included prepayments for long-term computer software licenses. The cash surrender value of life insurance on former key employees increased in the first nine months of both fiscal years.

Accounts payable increased \$1,848,000 in the first nine months of fiscal 2017 compared to a decrease of \$1,383,000 in the first nine months of fiscal 2016. Trade and freight payable varied in both periods due to timing of payments, fluctuations in the cost of goods and services we purchased, production volume levels and vendor payment terms. In addition, we performed a review of our vendor payment terms in fiscal 2017 and adjusted the timing of our payments accordingly. Current accrued estimated income taxes are also included in accounts payable balances.

Accrued expenses increased \$627,000 in the first nine months of fiscal 2017 compared to an increase of \$3,365,000 in the first nine months of fiscal 2016. The payout of the prior fiscal year's discretionary incentive bonus drove lower accrued salaries in the first nine months of fiscal 2017, while the increase in the first nine months of fiscal 2016 was driven by a higher incentive bonus accrual. Accrued plant expenses fluctuated in the first nine months of both fiscal years due to timing of payments, changes in the cost of goods and services we purchased, production volume levels

and vendor payment terms. In addition, accrued trade promotions and advertising varied due to the timing of marketing programs.

Accrued pension and postretirement benefits increased \$1,133,000 in the first nine months of fiscal 2017 compared to an increase of \$757,000 in the first nine months of fiscal 2016. The trend of a lower discount rate used to estimate the value of these accrued benefits resulted in higher liabilities. See Note 6 of the notes to the unaudited Condensed Consolidated Financial Statements for further information.

Net cash used in investing activities

Cash used in investing activities was \$18,858,000 in the first nine months of fiscal 2017 compared to cash used in investing activities of \$15,093,000 in the first nine months of fiscal 2016. Cash used for capital expenditures was \$10,418,000 and \$7,052,000 in the first nine months of fiscal 2017 and 2016, respectively. Capital expenditures in the first nine months of fiscal 2017 included additional spending for the enterprise resource planning system implementation project and related infrastructure improvements. Net purchases of short-term investments used cash of \$8,500,000 and \$8,297,000 in the first nine months of fiscal 2017 and 2016,

respectively. Purchases and dispositions of investment securities in both periods are impacted by variations in the timing of investment maturities, the operating cash needs of the Company and the availability of investment options.

Net cash used in financing activities

Cash used in financing activities was \$7,261,000 in the first nine months of fiscal 2017 compared to cash used in financing activities of \$7,343,000 in the first nine months of fiscal 2016. Scheduled payments on long-term debt were \$3,083,000 and \$3,484,000 in the first nine months of fiscal 2017 and 2016, respectively. Dividend payments in the first nine months of fiscal 2017 were \$4,441,000 compared to \$4,190,000 paid during the same period of fiscal 2016 due to a dividend increase.

Other

Total cash and investment balances held by our foreign subsidiaries of \$1,454,000 as of April 30, 2017 were lower than the April 30, 2016 balances of \$1,460,000. See further discussion in "Foreign Operations" above.

We have a \$25,000,000 unsecured revolving credit agreement with BMO Harris which expires on December 4, 2019. The agreement also provides for a maximum of \$5,000,000 for foreign letters of credit. Under the agreement we may select a variable interest rate based on either the BMO Harris prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. At April 30, 2017, the variable rates would have been 4.00% for the BMO Harris prime-based rate or 2.16% for the LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. We did not borrow under the credit agreement during the nine months ended April 30, 2017 and 2016, and we were in compliance with its covenants.

As of April 30, 2017, we had remaining authority to repurchase 301,444 shares of Common Stock under a repurchase plan approved by our Board of Directors. These repurchases may be made on the open market (pursuant to Rule 10b5-1 plans or otherwise) or in negotiated transactions. The timing and amount of shares repurchased will be determined by our management.

We believe that cash flow from operations, availability under our revolving credit facility, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, dividend payments and debt service obligations for at least the next 12 months. We plan to continue promoting our Cat's Pride Fresh & Light Ultimate Care lightweight scoopable litter in the fourth quarter of fiscal 2017; however, we plan to reallocate some of our anticipated spending between advertising, which is included in selling, general and administrative expenses, and trade promotions, which are included as a reduction of net sales. We expect total spending for advertising and trade spending to be significant, but less than the total spent in fiscal 2016. We anticipate that our capital expenditures will increase in fiscal 2017, including spending for implementation of an enterprise resource planning software. We do not believe that these increased expenditures will dramatically impact our cash position; however our cash requirements are subject to change as business conditions warrant and opportunities arise. We continually evaluate our liquidity position and anticipated cash needs, as well as the financing options available to obtain additional cash reserves. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all financial covenants under debt agreements, including, but not limited to, the current credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

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The following tables summarize our contractual obligations and commercial commitments (in thousands) as of April 30, 2017 for the time-frames indicated.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Notes Payable	\$12,333	\$3,083	\$6,167	\$3,083	\$—
Interest on Notes Payable	982	432	489	61	—
Operating Leases	14,976	2,102	2,723	1,541	8,610
Total Contractual Cash Obligations	\$28,291	\$5,617	\$9,379	\$4,685	\$8,610

We made total contributions to our defined benefit pension plan of \$1,322,000 during the first nine months of fiscal 2017. We estimate contributions of approximately \$335,000 will be made during the remainder of fiscal 2017. We have not presented this obligation for future years in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets and actuarial assumptions. See “Item 3. Quantitative and Qualitative Disclosures About Market Risk” below for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

	Amount of Commitment Expiration Per Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Other Commercial Commitments	\$21,450	\$21,450	\$	—\$	—\$ —

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of financial condition and results of operations is based on our unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these financial statements requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements. Estimates and assumptions are revised periodically. Actual results could differ from these estimates. See the information concerning our critical accounting policies included under “Management’s Discussion of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016.

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 the U.S. Dollar relative to the British Pound, Euro, Canadian Dollar, Chinese Yuan and the Brazilian Real, as related to our foreign subsidiaries, to certain accounts receivable, and to our ability to sell in foreign markets. We are subject to translation exposure of our foreign subsidiaries' financial statements from local currencies to U.S. Dollars. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated sales or net income. In addition, the portion of our consolidated accounts receivable denominated in foreign currencies is not significant. Finally, foreign sales of our products may be influenced by the relative strength or weakness of the U.S. Dollar compared to various other currencies, which makes our products relatively more or less expensive than our foreign competitors' products in local marketplaces. Foreign currency fluctuations had some bearing on our operating results in the first nine months of fiscal 2017; however, historically the overall foreign currency fluctuation risk has not been material to our Consolidated Financial Statements and in the first nine months of fiscal 2017 we did not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates.

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

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

We are exposed to commodity price risk with respect to fuel. Factors that could influence the cost of natural gas used in the kilns to dry our clay include the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, general supply and demand for natural gas, seasonality and the weather patterns throughout the United States and the world. We monitor fuel market trends and, consistent with our past practice, we may purchase fuel at spot rates on a month to month basis and we may contract for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. As of April 30, 2017, we have not purchased any natural gas contracts for our planned kiln fuel needs for the remainder of fiscal 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended April 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II – OTHER INFORMATION

Items 1A, 3 and 5 of this Part II are either inapplicable or are answered in the negative and are omitted pursuant to the instructions to Part II.

ITEM 1. LEGAL PROCEEDINGS

Below is a supplement to the description of the litigation under Item 3, “Legal Proceedings,” in the Annual Report on Form 10-K for the fiscal year ended July 31, 2016.

On February 3, 2015, we brought suit in the United States District Court for the Northern District of Illinois, Eastern Division, against Nestlé Purina PetCare Company (“Nestlé”) seeking monetary damages and injunctive relief based on Nestlé’s alleged infringement of a patent held by us. In response, Nestlé filed a petition for Inter Partes Review (“IPR”) with the Patent Trial and Appeal Board (“PTAB”) of the United States Patent and Trademark Office to challenge certain of the claims in our patent. Nestlé obtained a stay of the lawsuit in district court until the PTAB agreed to consider Nestlé’s petition and issued its substantive decision on the IPR’s patent challenges.

The PTAB agreed to consider Nestlé’s petition, and on June 20, 2016, issued an order stating that Nestlé had not shown by a preponderance of the evidence that any of the challenged claims in our patent are unpatentable. In July 2016, Nestlé filed a motion for reconsideration of the PTAB’s decision, which was denied in February 2017 and has since been appealed by Nestlé. The stay of our lawsuit in district court was lifted, but Nestlé sought another stay until the pending appeal is decided. Nestlé’s request for a stay was denied on March 24, 2017.

In addition, on September 23, 2016, we brought another suit in the United States District Court for the Northern District of Illinois, Eastern Division, against Nestlé seeking monetary damages and injunctive relief based on Nestlé’s alleged infringement of a patent issued to us in 2016.

Due to the nature and current legal standing of the litigation with Nestlé, we cannot estimate the possible damages, if any, and the total expense associated with the lawsuits. Although no assurances can be given as to the results of the lawsuits, based on the present status, management does not believe that such results will have a material adverse effect on our financial condition or results of operations.

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

During the three months ended April 30, 2017, we did not sell any securities which were not registered under the Securities Act of 1933. The following chart summarizes our Common Stock purchases during this period.

ISSUER PURCHASES OF EQUITY SECURITIES ¹

	(a)	(b)	(c)	(d)
For the Three Months Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under Plans or Programs ²
April 30, 2017				
February 1, 2017 to February 28, 2017	—	—	—	301,837
March 1, 2017 to March 31, 2017	393	34.26	—	301,444
April 1, 2017 to April 30, 2017	—	\$—	—	301,444

¹ The table summarizes repurchases of (and remaining authority to repurchase) shares of our Common Stock. We did not repurchase any shares of our Class B Stock during the period in question, and no shares of our Class A Common Stock are currently outstanding. Descriptions of our Common Stock, Class B Stock and Class A Common Stock are contained in the notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016 filed with the SEC.

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

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 6. EXHIBITS

Exhibit No.	Description	SEC Document Reference
11	Statement re: Computation of Earnings per Share.	Filed herewith.
31	Certifications pursuant to Rule 13a-14(a).	Filed herewith.
32	Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
95	Mine Safety Disclosures	Filed herewith.
101.INS	XBRL Taxonomy Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA
(Registrant)

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

BY /s/ Daniel T. Smith
Daniel T. Smith
Vice President and Chief Financial Officer

Dated: June 7, 2017

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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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