

OIL DRI CORP OF AMERICA  
Form 10-Q  
March 10, 2009

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, 2009

OR

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

Commission File Number 001-12622

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

Delaware  
(State or other jurisdiction of incorporation or organization)

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

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

60611-4213  
(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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(Do not check if a smaller reporting company)

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

Yes  No

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

Common Stock – 5,146,225 Shares

Class B Stock – 1,914,797 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 Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs, and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “anticipate,” “believe,” variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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

TRADEMARK NOTICE

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

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

|   | January 31,<br>2009 | July 31,<br>2008  |
|---|---------------------|-------------------|
| <b>ASSETS</b>   |                     |                   |
| <b>Current Assets</b>   |                     |                   |
| Cash and cash equivalents   | \$ 2,272            | \$ 6,848          |
| Investment in securities  | 14,494              | 20,916            |
| Accounts receivable, less allowance of \$700 and \$614 at January 31, 2009 and July 31, 2008, respectively  | 31,399              | 31,383            |
| Inventories   | 19,235              | 17,744            |
| Deferred income taxes   | 890                 | 890               |
| Prepaid expenses and other assets   | 5,673               | 4,870             |
| Total Current Assets  | 73,963              | 82,651            |
| <b>Property, Plant and Equipment</b>  |                     |                   |
| Cost  | 161,379             | 155,934           |
| Less accumulated depreciation and amortization  | (106,183)           | (104,494)         |
| Total Property, Plant and Equipment, Net  | 55,196              | 51,440            |
| <b>Other Assets</b>   |                     |                   |
| Goodwill  | 5,162               | 5,162             |
| Trademarks and patents, net of accumulated amortization of \$363 and \$349 at January 31, 2009 and July 31, 2008, respectively                              | 727                 | 733               |
| Debt issuance costs, net of accumulated amortization of \$563 and \$525 at January 31, 2009 and July 31, 2008, respectively                                 | 330                 | 338               |
| Licensing agreements and non-compete agreements, net of accumulated amortization of \$3,179 and \$2,987 at January 31, 2009 and July 31, 2008, respectively | 1,559               | 1,752             |
| Deferred income taxes   | 2,034               | 2,048             |
| Other   | 4,620               | 4,864             |
| Total Other Assets  | 14,432              | 14,897            |
| <b>Total Assets</b>   | <b>\$ 143,591</b>   | <b>\$ 148,988</b> |

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

## OIL-DRI CORPORATION OF AMERICA &amp; SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands of dollars)

(unaudited)

|   | January 31,<br>2009 | July 31,<br>2008 |
|---|---------------------|------------------|
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>   |                     |                  |
| <b>Current Liabilities</b>  |                     |                  |
| Current maturities of notes payable   | \$ 1,700            | \$ 5,580         |
| Accounts payable  | 6,330               | 7,491            |
| Dividends payable   | 921                 | 919              |
| Accrued expenses:   |                     |                  |
| Salaries, wages and commissions   | 3,294               | 5,578            |
| Trade promotions and advertising  | 2,560               | 2,126            |
| Freight   | 1,553               | 2,345            |
| Other   | 5,920               | 6,062            |
| Total Current Liabilities   | 22,278              | 30,101           |
| <b>Noncurrent Liabilities</b>   |                     |                  |
| Notes payable   | 21,300              | 21,500           |
| Deferred compensation   | 5,617               | 5,498            |
| Other   | 4,763               | 4,263            |
| Total Noncurrent Liabilities  | 31,680              | 31,261           |
| Total Liabilities   | 53,958              | 61,362           |
| <b>Stockholders' Equity</b>   |                     |                  |
| Common Stock, par value \$.10 per share, issued<br>7,438,301 shares at January 31, 2009 and 7,392,475<br>shares at July 31, 2008                                      | 744                 | 739              |
| Class B Stock, par value \$.10 per share, issued<br>2,239,538 shares at January 31, 2009 and 2,239,538<br>shares at July 31, 2008                                     | 224                 | 224              |
| Additional paid-in capital  | 22,764              | 22,218           |
| Restricted unearned stock compensation  | (526)               | (674)            |
| Retained earnings   | 108,637             | 105,966          |
| Accumulated Other Comprehensive Income  |                     |                  |
| Unrealized gain on marketable securities  | 29                  | 68               |
| Pension and postretirement benefits   | (97)                | (121)            |
| Cumulative translation adjustment   | (265)               | 612              |
|   | 131,510             | 129,032          |
| Less Treasury Stock, at cost (2,292,076 Common and 324,741<br>Class B shares at January 31, 2009 and 2,261,942 Common and<br>324,741 Class B shares at July 31, 2008) | (41,877)            | (41,406)         |
| Total Stockholders' Equity  | 89,633              | 87,626           |
| Total Liabilities & Stockholders' Equity  | \$ 143,591          | \$ 148,988       |

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

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

|  | For The Six Months Ended |            |
|--|--------------------------|------------|
|  | January 31               |            |
|  | 2009                     | 2008       |
| Net Sales  | \$ 122,258               | \$ 113,311 |
| Cost of Sales  | (97,969)                 | (89,533)   |
| Gross Profit   | 24,289                   | 23,778     |
| Selling, General and Administrative Expenses         | (17,080)                 | (17,111)   |
| Income from Operations                               | 7,209                    | 6,667      |
| <b>Other Income (Expense)</b>                        |                          |            |
| Interest expense                                     | (983)                    | (1,144)    |
| Interest income                                      | 261                      | 652        |
| Other, net   | (232)                    | 133        |
| Total Other Income (Expense), Net                    | (954)                    | (359)      |
| Income Before Income Taxes                           | 6,255                    | 6,308      |
| Income taxes   | (1,637)                  | (1,735)    |
| Net Income   | 4,618                    | 4,573      |
| <b>Retained Earnings</b>                             |                          |            |
| Balance at beginning of year                         | 105,966                  | 100,503    |
| Cash dividends declared and treasury stock issuances | (1,947)                  | (1,690)    |
| Retained Earnings – January 31                       | \$ 108,637               | \$ 103,386 |
| <b>Net Income Per Share</b>                          |                          |            |
| Basic Common   | \$ 0.70                  | \$ 0.70    |
| Basic Class B  | \$ 0.56                  | \$ 0.57    |
| Diluted  | \$ 0.64                  | \$ 0.64    |
| <b>Average Shares Outstanding</b>                    |                          |            |
| Basic Common   | 5,129                    | 5,033      |
| Basic Class B  | 1,868                    | 1,846      |
| Diluted  | 7,245                    | 7,196      |

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 Ended<br>January 31 |          |
|--|--|----------|
|  | 2009                                   | 2008     |
| Net Income                               | \$ 4,618                               | \$ 4,573 |
| Other Comprehensive Income:              |  |          |
| Unrealized loss on marketable securities | (38)                                   | (9)      |
| Pension and postretirement benefits      | 24                                     | 12       |
| Cumulative translation adjustment        | (877)                                  | 211      |
| Total Comprehensive Income               | \$ 3,727                               | \$ 4,787 |

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 |           |
|--|----------------------------|-----------|
|  | January 31                 |           |
|  | 2009                       | 2008      |
| Net Sales                                    | \$ 59,130                  | \$ 58,026 |
| Cost of Sales                                | (47,217)                   | (46,678)  |
| Gross Profit                                 | 11,913                     | 11,348    |
| Selling, General and Administrative Expenses | (8,342)                    | (8,251)   |
| Income from Operations                       | 3,571                      | 3,097     |
| <b>Other Income (Expense)</b>                |                            |           |
| Interest expense                             | (478)                      | (570)     |
| Interest income                              | 96                         | 284       |
| Other, net                                   | (11)                       | 71        |
| Total Other Income (Expense), Net            | (393)                      | (215)     |
| Income Before Income Taxes                   | 3,178                      | 2,882     |
| Income taxes                                 | (806)                      | (793)     |
| Net Income                                   | \$ 2,372                   | \$ 2,089  |
| <b>Net Income Per Share</b>                  |                            |           |
| Basic Common                                 | \$ 0.36                    | \$ 0.32   |
| Basic Class B                                | \$ 0.29                    | \$ 0.26   |
| Diluted                                      | \$ 0.33                    | \$ 0.29   |
| <b>Average Shares Outstanding</b>            |                            |           |
| Basic Common                                 | 5,131                      | 5,062     |
| Basic Class B                                | 1,873                      | 1,853     |
| Diluted                                      | 7,242                      | 7,239     |

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<br>January 31 |          |
|--|--|----------|
|  | 2009                                     | 2008     |
| Net Income                               | \$ 2,372                                 | \$ 2,089 |
| Other Comprehensive Income:              |  |          |
| Unrealized loss on marketable securities | (22)                                     | (35)     |
| Pension and postretirement benefits      | 12                                       | 6        |
| Cumulative translation adjustment        | (103)                                    | (236)    |
| Total Comprehensive Income               | \$ 2,259                                 | \$ 1,824 |

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<br>January 31 |          |
|---|--|----------|
|   | 2009                                   | 2008     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |  |          |
| Net Income  | \$ 4,618                               | \$ 4,573 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |          |
| Depreciation and amortization   | 3,684                                  | 3,735    |
| Amortization of investment discount   | (109)                                  | (455)    |
| Non-cash stock compensation expense   | 257                                    | 468      |
| Excess tax benefits for share-based payments                                      | (169)                                  | (238)    |
| Deferred income taxes   | (5)                                    | 10       |
| Provision for bad debts   | 73                                     | 120      |
| Loss on the sale of fixed assets  | 24                                     | 18       |
| (Increase) Decrease in:   |  |          |
| Accounts receivable   | (89)                                   | (2,159)  |
| Inventories   | (1,491)                                | (1,159)  |
| Prepaid expenses  | (803)                                  | (1,196)  |
| Other assets  | (1,321)                                | 180      |
| Increase (Decrease) in:   |  |          |
| Accounts payable  | (972)                                  | 144      |
| Accrued expenses  | (2,784)                                | (1,893)  |
| Deferred compensation   | 119                                    | 202      |
| Other liabilities   | 914                                    | 372      |
| Total Adjustments   | (2,672)                                | (1,851)  |
| Net Cash Provided by Operating Activities   | 1,946                                  | 2,722    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |  |          |
| Capital expenditures  | (7,757)                                | (3,828)  |
| Proceeds from sale of property, plant and equipment                               | 11                                     | 28       |
| Purchases of investment securities  | (52,969)                               | (56,006) |
| Dispositions of investment securities   | 59,500                                 | 50,000   |
| Net Cash Used in Investing Activities   | (1,215)                                | (9,806)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |  |          |
| Principal payments on notes payable   | (4,080)                                | (80)     |
| Dividends paid  | (1,838)                                | (1,678)  |
| Purchase of treasury stock  | (649)                                  | —        |
| Proceeds from issuance of treasury stock  | 70                                     | —        |
| Proceeds from issuance of common stock  | 272                                    | 893      |
| Excess tax benefits for share-based payments                                      | 169                                    | 238      |
| Other, net  | (349)                                  | 68       |
| Net Cash Used in Financing Activities   | (6,405)                                | (559)    |
| Effect of exchange rate changes   | 1,098                                  | (165)    |

|  |          |          |
|--|----------|----------|
| Net Decrease in Cash and Cash Equivalents    | (4,576)  | (7,808)  |
| Cash and Cash Equivalents, Beginning of Year | 6,848    | 12,133   |
| Cash and Cash Equivalents, January 31        | \$ 2,272 | \$ 4,325 |

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, 2008 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133 (“SFAS 161”). This Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt this Statement as of February 1, 2009, the beginning of our third quarter of our fiscal year ending July 31, 2009. We have not historically used any derivative instruments or hedging activities within the scope of SFAS 161, therefore we do not believe this Statement will have a material impact on our consolidated financial statements.

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

In June 2008, the FASB issued FSP EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

In November 2008, the FASB issued FSP EITF No. 08-7 (“FSP EITF 08-7), Accounting for Defensive Intangible Assets. This FSP clarifies the definition and accounting for defensive intangible assets acquired in a business combination or an asset acquisition. This FSP states that, upon acquisition, an intangible asset must be recognized at fair value in accordance with SFAS No. 157, Fair Value Measurement, regardless of how the acquiring entity intends to use the asset. The intangible asset should be amortized over a useful life approximated by the period over which it is expected to provide direct and indirect cash flows benefits resulting from the limitation against others to use the intangible asset. FSP EITF 08-7 will be effective for any intangible assets we acquire on or after August 1, 2009.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 (“FSP FAS 132(R)-1”), Employers’ Disclosures about Postretirement Benefit Plan Assets. This FSP amends SFAS No. 132 (Revised 2003), Employers’ Disclosures about Pensions and Other Postretirement Benefits, to expand the disclosure requirements for employers’ pension and other postretirement benefit plan assets. FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets, the investment policies and strategies for the major categories of plan assets and significant concentrations of risk within plan assets. We will adopt this FSP in our consolidated financial statements for the fiscal year ended July 31, 2010, on a prospective basis. We are currently evaluating the impact FSP FAS 132(R)-1 will have on our consolidated financial statements.

3. RECENTLY ADOPTED ACCOUNTING STANDARDS



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

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

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

#### 4. INVENTORIES

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

|                | January 31,<br>2009 | July 31,<br>2008 |
|----------------|---------------------|------------------|
| Finished goods | \$ 11,536           | \$ 10,076        |
| Packaging      | 4,037               | 3,798            |
| Other          | 3,662               | 3,870            |
|                | \$ 19,235           | \$ 17,744        |

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a quarterly review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The allowance not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at January 31, 2009 and July 31, 2008 were \$168,000 and \$138,000, respectively.

#### 5. FAIR VALUE MEASUREMENTS

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

- Level 1: Financial assets and liabilities whose values are based on quoted market prices in active markets for identical assets or liabilities.
- Level 2: Financial assets and liabilities whose values are based on:
- 1) Quoted prices for similar assets or liabilities in active markets.
  - 2) Quoted prices for identical or similar assets or liabilities in markets that are not active.

3) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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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, 2009<br>(in thousands) |          |         |
|--|--|----------|---------|
|  | Total  | Level 1  | Level 2 |
| <b>Assets</b>                          |  |          |         |
| Cash and cash equivalents              | \$ 2,272   | \$ 2,272 | \$ —    |
| Marketable equity securities           | 32   | 32       | —       |
| Cash surrender value of life insurance | 3,543  | —        | 3,543   |

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

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

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models and represents the guaranteed value we would receive upon surrender of these policies as of January 31, 2009. These life insurance policies are held on key employees.

The investments in securities reported on our on our unaudited condensed consolidated balance sheets consisted of U.S. Treasury securities carried at amortized cost and are not included in the above table.

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

## 6. PENSION AND OTHER POST RETIREMENT BENEFITS

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

|  | PENSION PLANS                             |        |   |        |
|--|---|--------|---|--------|
|  | Three Months Ended<br>January 31,<br>2009 |        | Six Months Ended<br>January 31,<br>2008 |        |
|  | (dollars in thousands)                    |        | (dollars in thousands)                  |        |
| Components of net periodic pension benefit cost: |   |        |   |        |
| Service cost                                     | \$ 211                                    | \$ 212 | \$ 421                                  | \$ 424 |
| Interest cost                                    | 334                                       | 292    | 668                                     | 584    |
| Expected return on plan assets                   | (325)                                     | (347)  | (650)                                   | (694)  |
| Net amortization                                 | 12  | 37     | 24                                      | 86     |
|  | \$ 232                                    | \$ 194 | \$ 463                                  | \$ 400 |

We have funded the plan based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum contribution required and the maximum contribution allowed under the Employee Retirement Income Security Act of 1974, as amended. We did not make a contribution to our pension plan during the first six months of the fiscal year ending July 31, 2009. 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 \$827,000. 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:

| Components of net periodic postretirement benefit cost: | POST RETIREMENT HEALTH BENEFITS |                     |                        |                     |
|---|---------------------------------|---------------------|------------------------|---------------------|
|   | Three Months Ended              |                     | Six Months Ended       |                     |
|   | January 31,<br>2009             | January 31,<br>2008 | January 31,<br>2009    | January 31,<br>2008 |
|   | (dollars in thousands)          |                     | (dollars in thousands) |                     |
| Service cost  | \$ 15                           | \$ 17               | \$ 31                  | \$ 34               |
| Interest cost   | 24                              | 18                  | 47                     | 36                  |
| Amortization of net transition obligation               | 4                               | 4                   | 8                      | 8                   |
| Net actuarial loss                                      | 4                               | (1)                 | 7                      | 6                   |
|   | \$ 47                           | \$ 38               | \$ 93                  | \$ 84               |

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>2009          | January 31,<br>2008 | January<br>31,<br>2009          | January 31,<br>2008 |
| Discount rate for net periodic benefit cost | 7.00%                           | 6.25%               | 7.00%                           | 6.25%               |
| Rate of increase in compensation levels     | 4.00%                           | 4.00%               | —                               | —                   |
| Long-term expected rate of return on assets | 7.50%                           | 8.00%               | —                               | —                   |
| Measurement date                            | 7/31/2008                       | 7/31/2007           | 7/31/2008                       | 7/31/2007           |
| Census date                                 | 8/1/2007                        | 8/1/2006            | 8/1/2007                        | 8/1/2006            |

The medical cost trend assumption for postretirement health benefits was a graded rate starting at 10% and decreasing to an ultimate rate of 5% in 1% annual increments.

## 7. SEGMENT REPORTING

SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information establishes standards for reporting information about operating segments. Under this standard, we have two reportable operating segments: Retail and Wholesale Products and Business to Business Products. These segments are managed separately because each business has different customer characteristics. Net sales and operating income for each segment are provided below. Revenues by product line are not provided because it would be impracticable to do so.

The accounting policies of the segments are the same as those described in Note 1 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2008 filed with the Securities and Exchange Commission.

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 administrative costs, research and development costs and other non-operating expenses.

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|                               | Assets              |                  |
|-------------------------------|---------------------|------------------|
|                               | January 31,<br>2009 | July 31,<br>2008 |
|                               | (in thousands)      |                  |
| Business to Business Products | \$ 41,560           | \$ 38,026        |
| Retail and Wholesale Products | 67,823              | 66,838           |
| Unallocated Assets            | 34,208              | 44,124           |
| Total Assets                  | \$ 143,591          | \$ 148,988       |

|   | Six Months Ended January 31, |            |                  |          |
|---|------------------------------|------------|------------------|----------|
|   | Net Sales                    |            | Operating Income |          |
|   | 2009                         | 2008       | 2009             | 2008     |
| (in thousands)                              |                              |            |                  |          |
| Business to Business Products               | \$ 38,849                    | \$ 35,480  | \$ 7,906         | \$ 7,657 |
| Retail and Wholesale Products               | 83,409                       | 77,831     | 7,215            | 8,233    |
| Total Sales/Operating Income                | \$ 122,258                   | \$ 113,311 | 15,121           | 15,890   |
| Less:                                       |                              |            |                  |          |
| Corporate Expenses                          |                              |            | 8,144            | 9,090    |
| Interest Expense, net of<br>Interest Income |                              |            | 722              | 492      |
| Income before Income Taxes                  |                              |            | 6,255            | 6,308    |
| Income Taxes                                |                              |            | (1,637)          | (1,735)  |
| Net Income                                  |                              |            | \$ 4,618         | \$ 4,573 |

|   | Three Months Ended January 31, |           |                  |          |
|---|--------------------------------|-----------|------------------|----------|
|   | Net Sales                      |           | Operating Income |          |
|   | 2009                           | 2008      | 2009             | 2008     |
| (in thousands)                              |                                |           |                  |          |
| Business to Business Products               | \$ 18,204                      | \$ 18,563 | \$ 3,480         | \$ 3,656 |
| Retail and Wholesale Products               | 40,926                         | 39,463    | 4,053            | 3,883    |
| Total Sales/Operating Income                | \$ 59,130                      | \$ 58,026 | 7,533            | 7,539    |
| Less:                                       |                                |           |                  |          |
| Corporate Expenses                          |                                |           | 3,973            | 4,371    |
| Interest Expense, net of<br>Interest Income |                                |           | 382              | 286      |
| Income before Income Taxes                  |                                |           | 3,178            | 2,882    |
| Income Taxes                                |                                |           | (806)            | (793)    |
| Net Income                                  |                                |           | \$ 2,372         | \$ 2,089 |

## 8. STOCK-BASED COMPENSATION

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (“SFAS 123R”) in the first quarter of fiscal 2006. In accordance with this pronouncement, we record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The stock-based compensation expense in the first six months of fiscal years 2009 and 2008 is the cost related to the unvested portion of grants issued after August 1, 2000 and grants issued after July 31, 2005. The stock options granted before August 1, 2000 were fully vested as of the beginning of fiscal 2006.

### 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 were from authorized but unissued stock. All restricted stock issued was from treasury stock.

On March 14, 2006, our Board of Directors unanimously approved adoption of the Oil-Dri Corporation of America 2006 Long Term Incentive Plan; our Board amended and restated the plan following the five-for-four stock split described below (as so amended and restated, the “2006 Plan”). The 2006 Plan was approved by our stockholders at our annual meeting on December 5, 2006. 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 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 919,500. Option grants covering 25,000 shares were issued to our outside directors with a vesting period of one year and option grants covering 32,500 shares were issued to employees with vesting similar to the vesting described above under the 1995 Plan. There were 90,000 shares of restricted stock 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. Our directors are considered employees under the provisions of SFAS 123R. Stock options have been granted to our directors for a 10-year term with a one year vesting period. There are 70,250 stock options outstanding as of January 31, 2009 and no stock options available for future grants under this plan. All stock issued under this plan were from treasury stock.

A five-for-four stock split was announced by our Board on June 6, 2006. In keeping with historical practices, we have adjusted the number of shares and the option prices to equitably adjust all outstanding stock options. Under SFAS 123R, the equitable adjustment of outstanding options to reflect a change in capitalization (such as a stock split) may require the recognition of incremental compensation expense if the adjustment is not determined to have been required by the actual terms of the equity incentive plan. The Directors’ Plan and the 1995 Plan may be deemed to have been discretionary, rather than required by the actual terms of these plans. We therefore recognized additional stock-based compensation expense as a result of the modification of approximately \$9,000 and \$96,000 in the second quarter of fiscal 2009 and 2008, respectively, and \$61,000 and \$207,000 in the first six months of fiscal 2009 and 2008, respectively.

There were no stock options granted in the first six months of fiscal years 2009 or 2008.

Changes in our stock options during the first six months of fiscal 2009 were as follows:

|                                       | Number<br>of Shares<br>(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, 2008    | 624                                      | \$ 8.66                                  | 4.4  | \$ 5,406  |
| Exercised                             | (57)                                     | \$ 6.03                                  |  | \$ 642  |
| Cancelled                             | (15)                                     | \$ 8.32                                  |  | \$ 125  |
| Options outstanding, January 31, 2009 | 552                                      | \$ 8.94                                  | 4.1  | \$ 4,938  |
| Options exercisable, January 31, 2009 | 517                                      | \$ 8.52                                  | 4.0  | \$ 4,400  |

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

Restricted Stock

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

Included in our stock-based compensation expense in the second quarter of fiscal years 2009 and 2008 is \$73,000 and \$84,000, respectively, related to the unvested restricted stock granted in fiscal 2006. In the first six months of fiscal years 2009 and 2008, the expense related to the unvested restricted stock was \$148,000 and \$164,000, respectively. No shares of restricted stock were granted in the first six months of fiscal 2009.

Changes in our restricted stock outstanding during the first six months of fiscal 2009 were as follows:

|   | (shares in thousands) |   |
|---|-----------------------|---|
|   | Restricted<br>Shares  | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Unvested restricted stock at July 31, 2008    | 55                    | \$ 15.42  |
| Vested  | (19)                  |   |
| Unvested restricted stock at January 31, 2009 | 36                    | \$ 15.44  |

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## 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, 2008. 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, 2008.

### OVERVIEW

We develop, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other sorbent materials. Our principal products include cat litter, industrial and automotive absorbents, bleaching clay and clarification aids, agricultural chemical carriers, animal health and nutrition and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end customer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable segments, the Retail and Wholesale Products Group and the Business to Business Products Group, as described in Note 7 of the unaudited condensed consolidated financial statements.

### RESULTS OF OPERATIONS

#### SIX MONTHS ENDED JANUARY 31, 2009 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2008

Consolidated net sales for the six months ended January 31, 2009 were \$122,258,000, an increase of 8% from net sales of \$113,311,000 in the first six months of fiscal 2008. Net income for the first six months of fiscal 2009 was \$4,618,000, an increase of 1% from net income of \$4,573,000 in the first six months of fiscal 2008. Diluted income per share for the first six months of fiscal 2009 was \$0.64, the same as for the first six months of fiscal 2008.

Net income for the first six months of fiscal 2009 was positively impacted by a higher average net selling price and was negatively affected by higher costs and by lower tons sold compared to the first six months of fiscal 2008. Selling prices increased to contend with higher costs incurred throughout our business, and particularly in freight, materials and packaging. Freight costs were impacted by fuel prices which affect our truck, rail and ship distribution channels. Although fuel costs began to trend downward during the first six months of fiscal 2009, the decline started from near record high levels. Material costs were impacted by the cost of fuel used to dry our clay-based products and to transport raw materials. As described in Item 3. Quantitative and Qualitative Disclosure About Market Risk, we employ a forward purchase policy to mitigate the volatility of the cost of fuel used to dry our clay-based products. Under this policy, the impact of fuel cost increases may be lessened; however, the benefit of fuel cost decreases may also be moderated. Packaging costs for some products benefited from changes in the resin and paper markets; however, our overall packaging costs were higher than in the comparable prior year period. The Business to Business Products Group experienced improved operating income as higher net selling prices outweighed increased costs and decreased tons sold; however, in the Retail and Wholesale Products Group the higher costs prevailed over both increased net selling prices and tons sold.

### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal 2009 were \$38,849,000, an increase of \$3,369,000 from net sales of \$35,480,000 in the first six months of fiscal 2008. The increase was primarily attributed to higher net selling prices that more than offset an overall 6% decrease in tons sold for the Group compared to the first six months of fiscal 2008. Net selling prices were higher for all product lines in the Group. Tons sold were down for all product lines, except for co-packaged cat litter products. Our co-packaged traditional coarse cat litter net sales increased 15% due primarily to an increase in net selling price accompanied by a 3% increase in tons sold. Under the terms of the agreement with our co-packaging partner, the net selling price is subject to adjustment in the third quarter of fiscal 2009. We expect this adjustment to result in a lower net selling price. The introduction of a new product by our co-packaging partner contributed to the higher tons sold. Net sales of bleaching earth and fluid purification products increased 12% due primarily to a higher net selling price while tons sold declined 1%. Net sales of agricultural chemical carriers increased 19% due primarily to higher net selling prices that overcame an 8% decrease in tons sold as genetically modified seed and other seed treatments continued to erode the market for these carriers. Net sales of Flo-Fre (a by-product of the manufacture of our agricultural chemical carriers) increased 14% while tons sold decreased 18%. Animal health and nutrition products reported a 4% increase in net sales with a 23% decline in tons sold. Tons sold declined during the first six months of fiscal 2009 as some customers had built inventory levels at the end of fiscal 2008 in advance of price increases. The increase in net sales of animal health and nutrition products was due primarily to increased net selling prices and the initial sales of new products. Sports products experienced a 10% decline in sales along with a 20% decline in tons sold. Uncertain economic conditions and the loss of a golf products distributor are expected to weaken sports products sales through the remainder of fiscal 2009.

The Business to Business Products Group's segment operating income increased 3% from \$7,657,000 in the first six months of fiscal 2008 to \$7,906,000 in the first six months of fiscal 2009. Higher net selling prices offset decreased tons sold and an approximately 15% increase in combined freight, materials and packaging costs. Freight costs increased approximately 29% due primarily to higher diesel fuel costs that impact our truck, rail and ship distribution channels. Although diesel fuel prices declined during the first six months of fiscal 2009, our average freight cost was higher than during the first six months of fiscal 2008. Material costs were impacted by increased costs for fuel used to dry our clay-based products and to transport raw materials which resulted in approximately a 14% cost increase. See the discussion of manufacturing costs under Consolidated Results below. Conversely, packaging costs decreased approximately 9% due primarily to lower costs for resin. Selling, general and administrative expenses for the Group were up due to increased product development and marketing costs associated with the launch of new 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 2009 were \$83,409,000, an increase of \$5,578,000 from net sales of \$77,831,000 reported in the first six months of fiscal 2008. The net sales growth was driven by increases in both net selling prices and tons sold. The Group's total tons sold increased 1% compared to the first six months of fiscal 2008, including a 3% increase in cat litter tons. Net sales of private label cat litter increased 13% due primarily to 6% more tons sold and a higher net selling price. The higher tons sold was the result of expanded distribution to existing customers, as well as distribution to new customers. Net sales of branded cat litter also increased 9% due to higher net selling prices that more than offset a 4% decline in tons sold. Our branded coarse cat litter tons sold declined; however, our branded scoopable cat litter tons sold increased as a result of new products and marketing programs. Net sales of industrial absorbents also increased 6% due to a higher net selling price while tons sold were flat with the first six months of fiscal 2008.

The Retail and Wholesale Products Group's segment operating income decreased 12% to \$7,215,000 in the first six months of fiscal 2009 from \$8,233,000 in the first six months of fiscal 2008. The decrease in six month segment operating income largely occurred in the first quarter of fiscal 2009 due to higher costs; in contrast, the second quarter saw a small increase in segment operating income, as described in the three months discussion below. The Group's combined freight, materials and packaging costs increased approximately 7% compared to the first six months of fiscal 2008. Materials and packaging costs increased approximately 8% each and freight increased approximately 4%. Materials and freight costs increased for the reasons described above for the Business to Business Products Group. Packaging costs increased as the Retail and Wholesales Products Group did not experience the benefit of recent price declines in the resin markets and paper prices have remained high. Selling, general and administrative expenses for the Group increased due primarily to higher advertising costs.

#### CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales for the first six months of fiscal 2009 was 20% compared to 21% in the first six months of fiscal 2008. Higher net selling prices were outweighed by increased fuel, manufacturing, freight, material and packaging costs. The cost of fuel used in the manufacturing process was 38% higher in the first six months of fiscal 2009 compared to the first six months of fiscal 2008. Gross profit was further reduced by an 11% increase in non-fuel manufacturing costs, including depreciation and amortization. Significant manufacturing cost increases were in purchased materials, repairs, labor and non-kiln fuel.

We use natural gas, fuel oil and coal in the manufacturing process to operate kilns that dry our clay. As described below in Item 3. Quantitative and Qualitative Disclosures About Market Risk, we have contracted for a substantial portion of our planned fuel needs for fiscal 2009. Despite recent decreased market prices in some energy-related commodities, we anticipate that fuel costs incurred during fiscal 2009 will continue to exceed costs in fiscal 2008.

Selling, general and administrative expenses as a percentage of net sales for the first six months of fiscal 2009 were 14% compared to 15% in the first six months of fiscal 2008. Expenses in the first six months of fiscal 2009 included a lower estimated annual incentive plan bonus accrual. The lower incentive bonus expense was based on performance targets that are established for each year. The lower bonus expense was partially offset by increased advertising and other costs related to new products and special promotions.



Interest expense was \$161,000 less for the first six months of fiscal 2009 compared to the same period in fiscal 2008 due to continued debt reduction. Interest income was \$391,000 lower in the first six months of fiscal 2009 due primarily to a lower average interest rate and a lower average investment balance.

Our effective tax rate was 26% of pre-tax income in the first six months of fiscal 2009, the same as for the full year of fiscal 2008. The effective tax rate was based on the projected level and composition of our taxable income for fiscal 2009.

Total assets decreased \$5,397,000 or 4% during the first six months of fiscal 2009. Current assets decreased \$8,688,000 or 11% from fiscal 2008 year-end balances, due primarily to decreased cash and cash equivalents and investments in Treasury securities. These decreases were partially offset by increased inventories and prepaid expenses. The changes in current assets are described below in Liquidity and Capital Resources. Property, plant and equipment, net of accumulated depreciation, increased \$3,756,000 during the first six months of fiscal 2009 due to the purchase of land and an increase in capital projects at our manufacturing facilities.

Total liabilities decreased \$7,404,000 or 12% during the first six months of fiscal 2009. Current liabilities decreased \$7,823,000 or 26% due primarily to decreased current maturities of notes payable, accrued salaries, accounts payable and accrued freight. Increased accrued trade promotions partially offset these decreases. The changes in current liabilities are described below in Liquidity and Capital Resources. Non-current liabilities increased \$419,000 or 1% due to a higher pension accrual and deferred compensation liabilities. The accrued pension liability is based on the most recent actuarial estimates. The increase in the deferred compensation liability is due to ongoing deferrals and accrued interest. These increases were partially offset by a decrease in notes payable due to the reclassification from long-term to current.

### THREE MONTHS ENDED JANUARY 31, 2009 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2008

Consolidated net sales for the three months ended January 31, 2009 were \$59,130,000, an increase of 2% from net sales of \$58,026,000 in the second quarter of fiscal 2008. Net income for the second quarter of fiscal 2009 was \$2,372,000, an increase of 14% from net income of \$2,089,000 in the second quarter of fiscal 2008. Diluted income per share for the second quarter of fiscal 2009 was \$0.33 versus \$0.29 diluted net income per share for the second quarter of fiscal 2008.

Net income for the second quarter of fiscal 2009 was positively impacted by a higher average net selling price and was negatively affected by higher costs and by lower tons sold compared to the second quarter of fiscal 2008. Selling prices have increased to contend with higher costs incurred throughout our business, and particularly in fuel, freight, materials and packaging, as described in the six months commentary above. The Retail and Wholesale Products Group experienced improved operating income as higher net selling prices outweighed increased costs and decreased tons sold; however, in the Business to Business Products Group the higher costs and lower tons sold prevailed over increased net selling prices.

### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal 2009 were \$18,204,000, a decrease of \$359,000 or 2% from net sales of \$18,563,000 in the second quarter of fiscal 2008. This decrease was due primarily to a 15% decline in tons sold which more than offset a higher net selling price for all product lines in the Group. Net sales were down for sports products and agricultural chemical carriers. Net sales of sports products were down 27% with 33% lower tons sold. The uncertain economic conditions and aggressive competitive pricing negatively impacted sports products sales. Net sales of agricultural chemical carriers were down 1% and tons sold decreased 22%. The second quarter tons sold was lower as certain agricultural customers shifted purchases from the

second quarter to the first quarter in fiscal 2009. Net sales increased for co-packaged products and animal health and nutrition products and were flat for bleaching earth and fluid purification products. A higher net selling price for our co-packaged traditional coarse cat litter resulted in a 9% net sales increase that offset a 1% decrease in tons sold. Net sales of animal health and nutrition products were up 7% due primarily to increased net selling prices that outweighed 38% lower tons sold. Tons sold declined as customers used inventories built in advance of price increases. The higher net selling price and initial sales from the launch of new animal health and nutrition products partially offset the decline in tons sold. Net sales of bleaching earth and fluid purification products were even with the second quarter last year as higher net selling prices offset a 14% decline in tons sold. A weak global economy and the strength of the U.S. Dollar relative to some foreign currencies, which made our bleaching earth products more expensive, resulted in decreased sales in certain export markets.

The Business to Business Products Group's segment operating income decreased 5% from \$3,656,000 in the second quarter of fiscal 2008 to \$3,480,000 in the second quarter of fiscal 2009. The income decrease was due primarily to lower tons sold accompanied by approximately 10% higher combined freight, materials and packaging costs. The Group's average freight cost was approximately 21% higher compared to the second quarter of fiscal 2008. High international freight costs offset the benefit of lower domestic diesel fuel prices during the second quarter of fiscal 2009. Material costs were impacted by increased costs for fuel used to dry our clay-based products and to transport raw materials which resulted in approximately a 10% cost increase. Conversely, packaging costs decreased approximately 14% primarily as this Group realized the benefits of lower costs for resin. Selling, general and administrative expenses for the Group increased due primarily to increased marketing and other costs associated with the launch of new 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 2009 were \$40,926,000, an increase of \$1,463,000 or 4% from net sales of \$39,463,000 reported in the second quarter of fiscal 2008. The net sales growth was driven by increased net selling prices that overcame a 3% decrease in tons sold. Total cat litter net sales increased 8% due to a higher net selling price that offset 1% lower tons sold. Net sales of private label cat litter increased 9% due primarily to 2% more tons sold and a higher net selling price. The increased tons sold were the result of expanded distribution to existing customers, as well as distribution to new customers. Net sales of branded cat litter also increased 6% due primarily to higher net selling prices that offset a 6% decline in tons sold. Our branded coarse cat litter tons sold declined; however our branded scoopable cat litter tons sold increased due to improved sales to existing customers and a full quarter's sales in fiscal 2009 for a new product introduced during fiscal 2008. Our industrial absorbents net sales were flat for the quarter with 6% lower tons sold. The manufacturing sector decline due to worsened economic conditions during our second quarter had a negative impact on industrial absorbent sales.

The Retail and Wholesale Products Group's segment operating income increased 4% to \$4,053,000 in the second quarter of fiscal 2009 from \$3,883,000 in the second quarter of fiscal 2008. The increase is attributed to the higher net sales described above that prevailed over an increase of approximately 5% for combined freight, materials and packaging costs compared to the second quarter of fiscal 2008. Packaging costs increased approximately 10% in the second quarter as the Retail and Wholesale Products Group did not realize the benefit of recent price declines in the resin markets and paper prices remained high. Materials costs increased approximately 7% for the reasons described above for the Business to Business Products Group. The Retail and Wholesale Products Group experienced some relief in domestic freight costs due to lower diesel fuel prices that resulted in approximately 5% lower freight costs compared to the second quarter of fiscal 2008. Selling, general and administrative expenses for the Group increased due primarily to higher advertising costs.

#### CONSOLIDATED RESULTS

Our consolidated gross profit as a percentage of net sales was 20% for the second quarter of fiscal 2009, the same as the second quarter of fiscal 2008. Higher net selling prices helped moderate the impact of increased fuel, manufacturing, freight, material and packaging costs. The cost of fuel used in the manufacturing process was 30% higher in the second quarter of fiscal 2009 compared to the second quarter of fiscal 2008. Gross profit was further impacted by a 9% increase in non-fuel manufacturing costs, including depreciation and amortization. Significant manufacturing cost increases were in labor, purchased materials, repairs and non-kiln fuel.

Selling, general and administrative expenses as a percentage of net sales were 14% for the second quarter of fiscal 2009, the same as in the second quarter of fiscal 2008. Expenses in the second quarter of fiscal 2009 included a lower estimated annual incentive plan bonus accrual. The lower incentive bonus expense was based on performance targets that are established for each year. The lower bonus cost was partially offset by increased advertising related to new

products and special marketing promotions.

Interest expense was \$92,000 lower for the second quarter of fiscal 2009 compared to the same period in fiscal 2008 due to continued debt reduction. Interest income was \$188,000 lower in the second quarter of fiscal 2009 due primarily to a lower average interest rate and a lower average investment balance.

Our effective tax rate was 25% of pre-tax income in the second quarter of fiscal 2009 compared to 26% for the full year of fiscal 2008. The effective tax rate is based on the projected level and composition of our taxable income for fiscal 2009.

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## FOREIGN OPERATIONS

Net sales by our foreign subsidiaries during the first six months of fiscal 2009 were \$7,089,000 or 6% of our consolidated net sales. This represents a decrease of 18% from the first six months of fiscal 2008, in which foreign subsidiary sales were \$8,698,000 or 8% of our consolidated net sales. Net sales and tons sold decreased in both our Canadian and United Kingdom subsidiaries. Industrial absorbent sales were down for both subsidiaries primarily as the worldwide economic slowdown impacted sales through reduced orders. In addition, both the British Pound and the Canadian Dollar were weaker against the U.S. Dollar for the first six months of fiscal 2009 compared to the first six months of fiscal 2008, which resulted in lower sales values after translation to U.S. Dollars for the first six months of fiscal 2009. For the first six months of fiscal 2009, our foreign subsidiaries reported a net loss of \$433,000, a decrease of \$921,000 from the \$488,000 net income reported in the first six months of fiscal 2008. The lower tons sold and currency impacts described above contributed to the net loss.

Identifiable assets of our foreign subsidiaries as of January 31, 2009 were \$9,103,000 compared to \$10,195,000 as of January 31, 2008. The decrease is due primarily to the weaker value of both the British Pound and Canadian Dollar compared to the U.S. Dollar as of January 31, 2009 versus January 31, 2008. This exchange rate fluctuation resulted in lower asset values translated to U.S. Dollars as of January 31, 2009, particularly for fixed assets and accounts receivable.

Net sales by our foreign subsidiaries during the second quarter of fiscal 2009 were \$3,219,000 or 5% of total Company sales. This represents a 23% decrease from with the second quarter of fiscal 2008, in which foreign subsidiary sales were \$4,206,000 or 7% of total Company sales. Net sales and tons sold decreased in both our Canadian and United Kingdom subsidiaries. Industrial absorbent sales were down for both subsidiaries as the worldwide economic slowdown impacted sales through reduced orders. A decline in Canadian cat litter sales was partially offset by increased net selling prices. The quarter was also impacted by the weaker exchange rates for the British Pound and the Canadian Dollar as described for the six month period above. For the second quarter of fiscal 2009, our foreign subsidiaries reported a net loss of \$254,000, a decrease of \$419,000 from the \$165,000 net income reported in the second quarter of fiscal 2008.

## 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 decreased \$4,576,000 during the first six months of fiscal 2009 to \$2,272,000 at January 31, 2009.

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

|   | Six Months Ended    |                     |
|---|---------------------|---------------------|
|   | January 31,<br>2009 | January 31,<br>2008 |
| Net cash provided by operating activities | \$ 1,946            | \$ 2,722            |
| Net cash used in investing activities     | (1,215)             | (9,806)             |
| Net cash used in financing activities     | (6,405)             | (559)               |
| Effect of exchange rate changes           | 1,098               | (165)               |
| Net decrease in cash and cash equivalents | \$ (4,576)          | \$ (7,808)          |

Net cash provided by operating activities

Net cash provided by operations was \$1,946,000 for the first six months of fiscal 2009, compared to \$2,722,000 for the first six months of fiscal 2008. The decrease was due primarily to changes in working capital. For the first six months of fiscal years 2009 and 2008, the primary components of working capital that impacted operating cash flows were as follows:

Inventories increased \$1,491,000 in the first six months of fiscal 2009 versus an increase of \$1,159,000 in the same period in fiscal 2008. Finished goods and packaging inventories increased in the first six months of fiscal 2009 due primarily to higher costs and increased tons in inventory to cover downtime for planned maintenance. Inventories increased in the first six months of fiscal 2008 due to higher costs, an effort to build finished goods inventory to meet future demand of specific products and to increase safety stock of packaging inventory.

Other assets increased \$1,321,000 in the first six months of fiscal 2009 versus a decrease of \$180,000 in the first six months of fiscal 2008. The change in other assets includes the effect of currency exchange rate fluctuations on non-cash assets held by our foreign subsidiaries. The change in the relative value of the U.S. Dollar to both the British Pound and the Canadian Dollar was greater in the first six months of fiscal 2009 compared to the same period of fiscal 2008.

Accrued expenses decreased \$2,784,000 in the first six months of fiscal 2009 versus a decrease of \$1,893,000 in the first six months of fiscal 2008. The decrease in both years was due primarily to six months of discretionary bonus accrued at January 31 versus twelve months at July 31. Accrued freight decreased for the first six months of fiscal 2009 and increased for the first six months of fiscal 2008 due to the timing of payments and shipments at quarter-end. Both years also reported higher trade spending and advertising accruals due to the timing of promotional activities.

Accounts payable decreased \$972,000 in the first six months of fiscal 2009 versus an increase of \$144,000 in the same period in fiscal 2008. Both years were subject to normal fluctuations in the timing of payments.

Other prepaid expenses increased \$803,000 in the first six months of fiscal 2009 versus an increase of \$1,196,000 in the first six months of fiscal 2008. The timing of insurance premium payments resulted in an increase in prepaid expenses in both years. In the first six months of fiscal 2009 spare parts inventory also increased. In the first six months of fiscal 2008 prepaid income taxes also increased due to timing of tax payments.

Accounts receivable, less allowance for doubtful accounts, increased by \$89,000 in the first six months of fiscal 2009 versus an increase of \$2,159,000 in the first six months of fiscal 2008. Sales in the second quarter of fiscal 2009 were slightly less than in the fourth quarter of fiscal 2008, while sales in the second quarter of fiscal 2008 were greater than in the fourth quarter of fiscal 2007. The comparative sales increase was greater for the second quarter of fiscal 2008 resulting in a larger change in accounts receivable. The change in both years is also subject to timing of sales and collections and ongoing efforts to improve collection procedures. We assessed our accounts receivable as of January 31, 2009 using various statistical measures and specific account reviews and believe the quality of our accounts receivable has not diminished compared to January 31, 2008.

Other liabilities increased \$914,000 in the first six months of fiscal 2009 compared to an increase of \$372,000 in the same period of fiscal 2008. The change relates primarily to the currency exchange rate fluctuation described above for other assets.

#### Net cash used in investing activities

Cash used in investing activities was \$1,215,000 in the first six months of fiscal 2009 compared to \$9,806,000 in the first six months of fiscal 2008. Cash used for capital expenditures was \$7,757,000 for the first six months of fiscal 2009 due primarily to a large capital project related to new product development. Dispositions of investment securities were greater than purchases of investment securities during this period as a result of the funds needed for the capital projects, as well as to make payments on long-term debt, to pay the fiscal 2008 bonus and to pay dividends. Cash used for capital expenditures during the first six months of fiscal 2008 was \$3,828,000. Purchases of investment securities were greater than dispositions during this period. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. During fiscal 2008 we also changed our investment strategy to allocate a greater portion of our financial resources to investments versus cash.

#### Net cash used in financing activities

Cash used in financing activities was \$6,405,000 in the first six months of fiscal 2009 compared to \$559,000 in the first six months of fiscal 2008. Cash used for payment of long-term debt in the first six months of fiscal 2009 was \$4,000,000 higher than in the first six months of fiscal 2008. Cash used to purchase treasury stock in the first six months of fiscal 2009 was \$649,000, while no purchases were made in the first six months of fiscal 2008. Dividend payments in the first six months of fiscal 2009 were \$160,000 higher compared to the first six months of fiscal 2008 due to a dividend increase. In addition, cash provided from the issuance of common stock related to stock options exercise activity in the first six months of fiscal 2009 was \$621,000 less than for the same period in fiscal 2008. The decrease in stock option exercises also provided \$69,000 lower excess tax benefit in the first six months of fiscal 2009

compared to the same period of fiscal 2008.

Other

Total cash and investment balances held by our foreign subsidiaries at January 31, 2009 and 2008 were \$1,262,000 and \$1,372,000, respectively. Our foreign subsidiaries' cash and investment balances decreased due to lower net sales.

As part of our normal course of business, we guarantee certain debts and trade payables of our wholly owned subsidiaries. These arrangements are made at the request of the subsidiaries' creditors because separate financial statements are not distributed for the wholly owned subsidiaries. As of January 31, 2009, the value of these guarantees was \$551,000 of lease liabilities.



On December 19, 2008, we signed an amendment to extend our \$15,000,000 unsecured revolving credit agreement with Harris N.A. (“Harris”) that was set to expire on January 27, 2009. The amended agreement is effective until December 31, 2011 and changes certain terms of the original agreement.

The credit agreement with Harris 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, 2009, the variable rates would have been 3.3% for the Harris’ prime-based rate or 2.5% for the LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of January 31, 2009 and 2008, we had \$15,000,000 available under this credit facility and we were in compliance with its covenants.

We believe that cash flow from operations, availability under our revolving credit facility and current cash and investment balances will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities and debt service obligations for at least the next 12 months. We expect cash requirements for capital expenditures in fiscal 2009 to increase by over \$5,000,000 from fiscal 2008 due to significant investment in our manufacturing facilities. 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.

Our capital requirements are subject to change as business conditions warrant and opportunities arise. The tables in the following subsection summarize our contractual obligations and commercial commitments at January 31, 2009 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                            | \$ 23,000,000        | \$ 1,700,000           | \$ 8,600,000         | \$ 8,800,000         | \$ 3,900,000        |
| Interest on Long-Term Debt                | 5,045,000            | 1,374,000              | 2,190,000            | 1,228,000            | 253,000             |
| Operating Leases                          | 12,255,000           | 2,668,000              | 3,657,000            | 2,053,000            | 3,877,000           |
| Unconditional Purchase Obligations        | 13,464,000           | 10,001,000             | 3,463,000            | —                    | —                   |
| <b>Total Contractual Cash Obligations</b> | <b>\$ 53,764,000</b> | <b>\$ 15,743,000</b>   | <b>\$ 17,910,000</b> | <b>\$ 12,081,000</b> | <b>\$ 8,030,000</b> |

The unconditional purchase obligations represent forward purchase contracts we have entered into for a portion of our natural gas fuel needs for fiscal 2009, 2010 and 2011. As of January 31, 2009, the remaining purchase obligation for fiscal 2009 was \$7,754,000 for 840,000 MMBtu, for fiscal 2010 was \$4,346,000 for 570,000 MMBtu and for fiscal 2011 was \$1,364,000 for 160,000 MMBtu. These contracts were entered into in the normal course of business and no contracts were entered into for speculative purposes.

We are not required to make a contribution to our defined benefit pension plan in fiscal 2009, although we intend to make a contribution of approximately \$827,000 as discussed in Note 6 of the notes to the unaudited condensed consolidated financial statements. We have not presented this obligation for the current or 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.

As of January 31, 2009, our non-current liability for uncertain tax positions was approximately \$200,000. We have not presented this obligation in the table above because the timing of future cash flows is dependent on examinations by taxing authorities and can not reasonably be estimated.

| Other Commercial<br>Commitments | Total         | Amount of Commitment Expiration Per Period<br>Less Than 1 |               |              |               |
|---------------------------------|---------------|---|---------------|--------------|---------------|
|                                 |               | Year  | 1 – 3 Years   | 4 – 5 Years  | After 5 Years |
| Other Commercial Commitments    | \$ 54,332,000 | \$ 39,061,000   | \$ 13,006,000 | \$ 2,265,000 | \$ —          |

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

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

See the information concerning our critical accounting policies included under Management’s Discussion of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended July 31, 2008 filed with the Securities and Exchange Commission, which is incorporated by reference in this Form 10-Q. For additional information on our adoption of SFAS 157, see Note 5 of the notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q. For additional information on our adoption of SFAS 159 and EITF 06-11, see Note 3 of the notes to unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133 (“SFAS 161”). This Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt this Statement as of February 1, 2009, the beginning of our third quarter of our fiscal year ending July 31, 2009. We have not historically used any derivative instruments or hedging activities within the scope of SFAS 161, therefore we do not believe this Statement will have a material impact on our consolidated financial statements.

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

In June 2008, the FASB issued FSP EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

In November 2008, the FASB issued FSP EITF No. 08-7 (“FSP EITF 08-7), Accounting for Defensive Intangible Assets. This FSP clarifies the definition and accounting for defensive intangible assets acquired in a business combination or an asset acquisition. This FSP states that, upon acquisition, an intangible asset must be recognized at fair value in accordance with SFAS No. 157, Fair Value Measurement, regardless of how the acquiring entity intends to use the asset. The intangible asset should be amortized over a useful life approximated by the period over which it is expected to provide direct and indirect cash flows benefits resulting from the limitation against others to use the intangible asset. FSP EITF 08-7 will be effective for any intangible assets we acquire on or after August 1, 2009.

In December 2008, the FASB issued FSP No. FAS 132(R)-1 (“FSP FAS 132(R)-1”), Employers’ Disclosures about Postretirement Benefit Plan Assets. This FSP amends SFAS No. 132 (Revised 2003), Employers’ Disclosures about Pensions and Other Postretirement Benefits, to expand the disclosure requirements for employers’ pension and other postretirement benefit plan assets. FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets, the investment policies and strategies for the major categories of plan assets and significant concentrations of risk within plan assets. We will adopt this FSP in our consolidated financial statements for the fiscal year ended July 31, 2010, on a prospective basis. We are currently evaluating the impact FSP FAS 132(R)-1 will have on our consolidated financial statements.

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

We are exposed to interest rate risk and employ policies and procedures to manage our exposure to changes in the market risk of our cash equivalents and short-term investments. We had two offsetting interest rate swap agreements with the same counterparty as of January 31, 2009. We believe that the market risk arising from holding these financial instruments is not material.

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

We are exposed to market risk at it relates to the investments that make up our plan assets under our defined benefit pension plan. The fair value of these assets is subject to change due to fluctuations in the financial markets. Changes in the value of plan assets are not expected to have an impact on the income statement for fiscal 2009; however, reduced benefit plan assets could result in increased benefit costs in future years and may increase the amount and accelerate the timing of future funding contributions.

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

We are exposed to commodity price risk with respect to fuel. We have contracted for a portion of our anticipated fuel needs for fiscal years 2009, 2010 and 2011 using forward purchase contracts to mitigate the volatility of our kiln fuel prices. We increased our forward gas contract purchases as gas prices declined. As of January 31, 2009, we have purchased natural gas contracts representing approximately 70% of our planned kiln fuel needs for fiscal 2009. We estimate the weighted average cost of these natural gas contracts in fiscal 2009 to be approximately 17% higher than the contracts in fiscal 2008.

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, 2009, the table presents the notional amounts in MMBtu's, the weighted average contract prices, and the total dollar contract amount, which will mature by July 31 of 2009, 2010 and 2011. The Fair Value was determined using the "Most Recent Settle" price for the "Henry Hub Natural Gas" option contract prices as listed by the New York Mercantile Exchange on March 4, 2009. All contracts are related to the normal course of business and no contracts are entered into for speculative purposes; therefore, the difference between the contract value and fair value is not recorded on the balance sheet in accordance with the normal purchases exception provided by FAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

Commodity Price Sensitivity  
Natural Gas Future Contracts  
For the Year Ending July 31, 2009  
Expected 2009  
Maturity

|   |            | Fair Value |
|---|------------|------------|
| Natural Gas Future Volumes (MMBtu)      | 840,000    | —          |
| Weighted Average Price (Per MMBtu)      | \$ 9.23    | —          |
| Contract Amount (\$ U.S., in thousands) | \$ 7,753.9 | \$ 3,695.7 |

Commodity Price Sensitivity  
Natural Gas Future Contracts  
For the Year Ending July 31, 2010  
Expected 2010  
Maturity

|   |            | Fair Value |
|---|------------|------------|
| Natural Gas Future Volumes (MMBtu)      | 570,000    | —          |
| Weighted Average Price (Per MMBtu)      | \$ 7.62    | —          |
| Contract Amount (\$ U.S., in thousands) | \$ 4,346.0 | \$ 3,179.5 |

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

|   |            | Fair Value |
|---|------------|------------|
| Natural Gas Future Volumes (MMBtu)      | 160,000    | —          |
| Weighted Average Price (Per MMBtu)      | \$ 8.53    | —          |
| Contract Amount (\$ U.S., in thousands) | \$ 1,364.4 | \$ 1,028.6 |

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

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

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

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

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended January 31, 2009 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, 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 1A. RISK FACTORS

For information regarding Risk Factors, please refer to Item 1A in our Annual Report on Form 10-K for the year ended July 31, 2008. There have been no material changes in risk factors since July 31, 2008.

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

During the three months ended January 31, 2009, 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<br>Months Ended<br>January 31, 2009 | (a) Total<br>Number of<br>Shares<br>Purchased | (b) Average<br>Price Paid<br>per Share | (c) Total Number<br>of Shares<br>Purchased as Part<br>of Publicly<br>Announced Plan<br>or Programs | (d) Maximum<br>Number of Shares<br>that may yet be<br>Purchased Under<br>Plans or Programs <sup>2</sup> |
|---|---|--|--|---|
| November 1, 2008 to<br>November 30, 2008          | 300   | \$ 16.24                               | 300  | 272,688   |
| December 1, 2008 to<br>December 31, 2008          | —   | —                                      | —  | 272,688   |
| January 1, 2009 to<br>January 31, 2009            | —   | —                                      | —  | 272,688   |

<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 6 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2008 filed with the Securities and Exchange Commission.

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



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

On December 9, 2008, we held our 2008 Annual Meeting of Stockholders for the purpose of considering and voting on two matters, summarized below.

## 1. Election of Directors

The following schedule sets forth the results of the vote to elect eight directors. As of the record date of the meeting a total of 7,050,955 shares of Common Stock and Class B Stock were eligible to cast a total of 24,284,128 votes. At the meeting, shares representing a total of 23,326,102 votes were present in person or by proxy.

| Director            | Votes For  | Votes Withheld |
|---------------------|------------|----------------|
| J. Steven Cole      | 23,255,418 | 70,684         |
| Arnold W. Donald    | 23,222,032 | 104,070        |
| Daniel S. Jaffee    | 22,107,680 | 1,218,422      |
| Richard M. Jaffee   | 22,107,580 | 1,218,522      |
| Joseph C. Miller    | 22,088,489 | 1,237,613      |
| Michael A. Nemeroff | 22,085,536 | 1,240,566      |
| Allan H. Selig      | 23,225,636 | 100,466        |
| Paul E. Suckow      | 23,270,787 | 55,315         |

## 2. Ratification of Independent Registered Public Accounting Firm

Our Audit Committee's selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending July 31, 2009 was ratified by receiving 23,205,956 votes of a total 24,284,128 eligible votes, with 88,207 votes against and 31,938 votes to abstain.

## ITEM 6. EXHIBITS

## (a) EXHIBITS:

| Exhibit No. | Description  | SEC Document Reference |
|-------------|--|------------------------|
| 10.1        | First Amendment, dated as of December 19, 2008, to Credit Agreement among the Company, certain subsidiaries of the Company and Harris N.A. dated as of January 27, 2006. | Filed herewith.        |
| 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.    |

SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA  
(Registrant)

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

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

Dated: March 10, 2009

EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | First Amendment, dated as of December 19, 2008, to Credit Agreement among the Company, certain subsidiaries of the Company and Harris N.A. dated as of January 27, 2006. |
| 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.   |

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.