OIL DRI CORP OF AMERICA
Form 10-K
October 10, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

____

Commission File Number 001-12622

OIL-DRI CORPORATION OF AMERICA

Delaware (State or other jurisdiction of incorporation or organization)	36-2048898 (IRS. Employer Identification No.)

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

(312) 321-1515

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

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

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

None

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

Yes o No ý

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

Yes o No ý

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

Yes ý No o

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

Yes ý No o

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

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

Large accelerated filer	o	Accelerated filer	ý
Non-accelerated filer	o	Smaller reporting company	o
(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 o No ý

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of January 31, 2014 was $167,618,000.

Number of shares of each class of Oil-Dri's capital stock outstanding as of September 30, 2014:

Common Stock – 5,001,742 shares

Class B Stock – 2,069,994 shares

Class A Common Stock – 0 shares

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference: Oil-Dri's Proxy Statement for its 2014 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission ("SEC") not later than November 28, 2014 (120 days after the end of Oil-Dri's fiscal year ended July 31, 2014), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.

CONTENTS

Item		Page
PART I		
1	Business	5
1A.	Risk Factors	11
1B.	Unresolved Staff Comments	17
2	Properties	18
3	Legal Proceedings	20
4	Mine Safety Disclosure	21
PART II		
5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
6	Selected Financial Data	25
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
7A.	Quantitative and Qualitative Disclosures About Market Risk	36
8	Financial Statements and Supplementary Data	37
	Management's Report on Internal Control Over Financial Reporting	68
	Report of Independent Registered Public Accounting Firm	69
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	71
9A.	Controls and Procedures	71
9B.	Other Information	71
PART III		
10	Directors, Executive Officers and Corporate Governance	72
11	Executive Compensation	72
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	72

13	Certain Relationships and Related Transactions, and Director Independence	72
14	Principal Accountant Fees and Services	72

CONTENTS (CONTINUED)

Item		Page
PART IV		
15	Exhibits and Financial Statement Schedule	73
	Signatures	78
	Schedule II - Valuation and Qualifying Accounts	80
	Exhibit Index	81

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including those under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those statements elsewhere in this report and other documents we file with the SEC, contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “projec “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “assume,” variations of such words and simila expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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

TRADEMARK NOTICE

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

PART I

ITEM 1 – BUSINESS

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

GENERAL BUSINESS DEVELOPMENTS

During fiscal 2014 we made substantial business investments in both of our operating segments, including the acquisition of certain assets of MFM Industries Inc. (“MFM”), which expanded our private label cat litter business, and the opening of our subsidiary in Shenzhen, China, which extended the presence of our animal health and nutrition products in China through a direct sales force. See Note 3 of the Notes to the Consolidated Financial Statements for further information about the MFM acquisition. In addition, we increased spending for trade promotions and advertising of our cat litter products and invested significantly in capital at our plant facilities for equipment and capacity expansion. We also experienced cost increases to mine, manufacture and transport our products during fiscal 2014. Rising costs for natural gas, freight and packaging, as well as increased mining costs to extract clay deeper in the ground all impacted our annual results.

We believe our balance sheet remains strong at the end of fiscal 2014, even though cash, cash equivalents and short-term investments declined. Major uses of cash included capital expenditures, the MFM acquisition, advertising, dividend payments and debt repayments. We believe cash requirements for capital expenditures in fiscal 2015 will be comparable to fiscal 2014 due to projects at our manufacturing facilities. Advertising and promotions spending is also anticipated to be a significant use of cash in fiscal 2015, which we believe will be at levels similar to fiscal 2014. Our capital requirements are subject to change as business conditions warrant and opportunities arise.

PRINCIPAL PRODUCTS

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

Agricultural and Horticultural Products

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

chemical carrier; Flo-Fre, a highly absorbent microgranule flowability aid; Terra-Green, a growing media supplement; and Pel-Unite, an animal feed binder.

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

Animal Health and Nutrition Products

We produce, or use contract processors to produce, several products used in the livestock feed industry. Many of these products are sold under the Amlan trademark. Calibrin and ConditionAde enterosorbent products are used in animal feed to absorb naturally-occurring mycotoxins. These products work to improve animal health and productivity. Our MD-09 moisture manager product is a feed additive for the reduction of wet droppings in poultry. Pel-Unite and Pel-Unite Plus products are specialized animal feed pellet binders. These products are sold through a network of feed products distributors in the United States and through distribution agreements with animal health and nutrition products distributors in Latin America, Africa, the Middle East and Asia. Beginning in fiscal 2014, these products were also sold by sales people employed by our new subsidiary located in China, as further described in Foreign Operations below.

Bleaching Clay and Purification Aid Products

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

Cat Litter Products

Branded products. We produce two types of mineral-based cat litter products, traditional coarse and scoopable, both of which have absorbent and odor controlling characteristics. Scoopable litters have the additional characteristic of clumping when exposed to moisture, allowing the consumer to selectively dispose of the used portion of the litter. Our coarse and scoopable products are sold under our Cat’s Pride and Jonny Cat brand names. In 2011, under our Cat's Pride Fresh & Light product line, we introduced a scoopable lightweight litter to the industry that offers superior performance with the added convenience of being lighter to carry and pour. We subsequently expanded our Cat's Pride Fresh & Light offerings to include a flushable, paper-based cat litter. In addition, we offer our coarse litter in a pre-packaged, disposable tray under the Cat’s Pride KatKit and Jonny Cat brands. Moreover, we offer litter box liners under the Cat's Pride and Jonny Cat product lines.

Private label products. We also produce private label cat litters for other customers that are sold through both independent food brokers and our sales force to major grocery, drug, dollar store, mass-merchandiser and pet outlets.

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

Industrial and Automotive Products

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

applications to provide a non-slip and non-flammable surface for workers. These floor absorbents are also used in automotive repair facilities, car dealerships and other industrial applications, as well as for home use in garages and driveways. Our Oil-Dri branded polypropylene-based and cotton-based products are sold in various forms, such as pads, rolls, socks, booms and spill kits.

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

Sports Products

Pro’s Choice sports field products are used on baseball, softball, football and soccer fields. Pro’s Choice soil conditioners are used in field construction or as top dressing to absorb moisture, suppress dust and improve field performance. Pro Mound

6

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packing clay is used to construct pitcher's mounds and batter's boxes. Rapid Dry drying agent is used to dry up puddles and slick spots after rain. Sports products are used at all levels of play, including professional, college and high school and on municipal fields. These products are sold through a network of distributors specializing in sports turf products.

BUSINESS SEGMENTS

We have two reportable operating segments for financial reporting derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group. The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet specialty retail outlets, dollar stores, retail grocery stores, distributors of industrial cleanup and automotive products, environmental service companies and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products. Certain financial information on both segments is contained in Note 4 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

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

FOREIGN OPERATIONS

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

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

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

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

Our foreign operations are subject to the normal risks of doing business overseas, such as currency fluctuations, restrictions on the transfer of funds and import/export duties. We were not materially impacted by these foreign currency fluctuations in any of our last three fiscal years. See Item 7A "Quantitative and Qualitative Disclosures About Market Risk" for further information about our foreign markets risks. Certain financial information about our foreign operations is contained in Note 4 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

CUSTOMERS

Sales to Wal-Mart Stores, Inc. ("Walmart") and its affiliates accounted for approximately 19%, 20% and 22% of our total net sales for the fiscal years ended July 31, 2014, 2013 and 2012, respectively. Walmart is a customer in our

Retail and Wholesale Products Group segment. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales; however, sales to Clorox (a customer in our Business to Business Products Group) and its affiliates accounted for approximately 6% of total net sales for the fiscal year ended July 31, 2014 and 7% of total net sales for each of the fiscal years ended July 31, 2013 and 2012. The degree of margin contribution of our significant customers in the Business to Business Products Group varies, with certain customers having a greater effect on our operating results. The loss of any customer other than those described in this paragraph would not be expected to have a material adverse effect on our business.

COMPETITION

Price, customer service, marketing, technical support, product quality and distribution resources are the principal methods of competition in our markets and competition historically has been very vigorous. Some of our competitors, particularly in the

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sale of cat litter (the largest product in our Retail and Wholesale Products Group), have substantially greater financial resources or market presence than we do and have established brands.

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

In the Business to Business Products Group, we have 14 principal competitors. Our agricultural chemical carrier products have experienced competition from new engineered granular technologies in the agricultural and horticultural markets. Our bleaching clay and fluids purification products are sold in a highly cost competitive global marketplace. Performance is a primary competitive factor for these products. The animal health portion of this segment also operates in a global marketplace with price and performance competition from multi-national and local competitors.

PATENTS

We have obtained or applied for patents for certain of our processes and products sold to customers in both the Retail and Wholesale Products Group and the Business to Business Products Group. These patents expire at various times, including fiscal 2015. We expect no material impact on our business from the expiration of patents in the upcoming year.

BACKLOG; SEASONALITY

As of July 31, 2014, 2013 and 2012, our backlog of orders were valued at approximately $7,401,000, $8,503,000 and $4,741,000, respectively. The value of backlog orders was determined by the number of tons on backlog order and the net selling prices. All backlog orders are expected to be filled within the next 12 months. We consider our business, taken as a whole, to be moderately seasonal; however, business activities of certain customers (such as agricultural chemical manufacturers) are subject to such seasonal factors as crop acreage planted, product formulation cycles and weather conditions.

EFFECTS OF INFLATION

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

RESERVES

We mine our clay on leased or owned land near our manufacturing facilities in Mississippi, Georgia, Illinois and California; we also have reserves in Nevada, Oregon and Tennessee. We estimate that our proven mineral reserves as of July 31, 2014 are approximately 148,578,000 tons in aggregate and our probable reserves are approximately 135,371,000 tons in aggregate, for a total of 283,949,000 tons of mineral reserves. Based on our rate of consumption

during fiscal year 2014, and without regard to any of our reserves in Nevada, Oregon and Tennessee, we consider our proven reserves adequate to supply our needs for over 40 years. Although we consider these reserves to be extremely valuable to our business, only a small portion of the reserves, those which were acquired in acquisitions, was reflected at cost on our balance sheet.

It is our policy to attempt to add to reserves in most years, but not necessarily in every year, an amount at least equal to the amount of reserves consumed in that year. We have a program of exploration for additional reserves and, although reserves have been acquired, we cannot assure that additional reserves will continue to become available. Our use of these reserves, and our ability to explore for additional reserves, are subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. During the fiscal year ended July 31, 2014, we utilized these reserves to produce a majority of the sorbent products that we sold.

Proven reserves are those reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from results of detailed sampling, and (b) the sites for inspection,

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sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established. Probable reserves are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. We employ geologists and mineral specialists who estimate and evaluate existing and potential reserves in terms of quality, quantity and availability.

MINING OPERATIONS

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

The following schedule summarizes the net book value of land and other plant and equipment for each of our manufacturing facilities:

	Land & Mineral Rights	Plant and Equipment
	(in thousands)	
Ochlocknee, Georgia	$8,646	$29,059
Ripley, Mississippi	$1,770	$10,212
Mounds, Illinois	$1,545	$1,506
Blue Mountain, Mississippi	$878	$10,538
Taft, California	$1,506	$3,203

EMPLOYEES

As of July 31, 2014, we employed 793 persons, 47 of whom were employed by our foreign subsidiaries. We believe our corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 45 of our employees in the U.S. and approximately 22 of our employees in Canada are represented by labor unions, with whom we have entered into separate collective bargaining agreements. We consider our employee relations to be satisfactory.

ENVIRONMENTAL COMPLIANCE

Our mining and manufacturing operations and facilities in Georgia, Mississippi, California and Illinois are required to comply with state surface mining and environmental protection statues. These domestic locations and our Canadian operations are subject to various federal, state and local statutes, regulations and ordinances which govern the discharge of materials, water and waste into the environment or otherwise regulate our operations. In recent years, environmental regulation has grown increasingly stringent, a trend that we expect will continue. We endeavor to be in compliance at all times and in all material respects with all applicable environmental controls and regulations. As a result, expenditures relating to environmental compliance have increased over the years; however, these expenditures have not been material. As part of our ongoing environmental compliance activities, we incur expenses in connection with reclaiming mining sites. Historically, reclamation expenses have not had a material effect on our cost of sales.

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

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

ENERGY

We primarily used natural gas in the processing of our clay products during fiscal 2014. We have the ability to switch among various energy sources, including natural gas, recycled oil and coal as permitted. See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below for more information about commodity risk with respect to our energy use.

RESEARCH AND DEVELOPMENT

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

AVAILABLE INFORMATION

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

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

ITEM 1A – RISK FACTORS

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

Risks Related to our Business

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

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

We face intense competition in our markets.

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

Our periodic results may be volatile.

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

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

- introduction of new products and services by us or our competitors;
- our ability to successfully implement price increases and surcharges, as well as other changes in our pricing policies or those of our competitors;
- variations in purchasing patterns by our customers, including due to weather conditions;
- the ability of major customers and other debtors to meet their obligations to us as they come due;
- our ability to successfully manage regulatory, intellectual property, tax and legal matters;
- the incurrence of restructuring, impairment or other charges; and
- general economic conditions and specific economic conditions in our industry and the industries of our customers.

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

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

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

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

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

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

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

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

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

The products we sell are subject to significant price competition. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures and to maintain market share. These

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

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

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

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

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

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

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

Reductions in inventory by our customers could adversely affect our sales and increase our inventory risk.

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

The value of our inventory may decline as a result of surplus inventory, packaging changes driven by regulatory requirements or market refreshment, price reductions or obsolescence. We must identify the right product mix and maintain sufficient inventory on hand to meet customer orders. Failure to do so could adversely affect our revenue and operating results. If circumstances change (for example, an unexpected shift in market demand, pricing or customer defaults) there could be a material impact on the net realizable value of our inventory. We maintain an inventory

valuation reserve account against diminution in the value or saleability of our inventory; however, there is no guaranty that these arrangements will be sufficient to avoid write-offs in excess of our reserves.

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

We are subject to a variety of federal, state, local and foreign laws and regulatory requirements relating to the environment and to health and safety matters. For example, our mining operations are subject to extensive governmental regulation on matters such as permitting and licensing requirements, workplace safety, plant and wildlife protection, wetlands and other environmental protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, and the effects that mining has on groundwater quality and availability. We believe we have obtained all material permits and licenses required to conduct our present operations. We will, however, need additional permits and renewals of permits in the future.

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

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

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

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

We are also experiencing increasing customer scrutiny of the content and manufacturing of our products, particularly our products entering or affecting the food chain, in parallel with the increasing government regulation discussed above. Our customers may impose product specifications or other requirements that are different from, and more onerous than, applicable laws and regulations. As a result, the failure of our products to meet these additional requirements may result in loss of customers and decreased sales of our products even in the absence of any actual

failure to comply with applicable laws and regulations. There can be no assurance that future customer requirements concerning the content or manufacturing of our products will not have a material adverse effect on our business.

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

Most of our principal raw materials are sorbent minerals mined by us or independent contractors on land that we own or lease. While our mining operations are conducted in surface mines, which do not present many of the risks associated with deep underground mining, our mining operations are nevertheless subject to many conditions beyond our control. Our mining operations are affected by weather and natural disasters, such as heavy rains and flooding, equipment failures and other unexpected maintenance problems, variations in the amount of rock and soil overlying our reserves, variations in geological conditions, fires and other accidents, fluctuations in the price or availability of supplies and other matters. Any of these risks could result in significant damage to our mining properties or processing facilities, personal injury to our employees, environmental damage, delays in mining or

processing, losses or possible legal liability. We cannot predict whether or the extent to which we will suffer the impact of these and other conditions in the future.

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

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

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

The execution of our business plans depends in part upon the continued service of our senior management team, who possess unique and extensive industry knowledge and experience. The loss or other unavailability of one or more of the key members of our senior management team could adversely impact our ability to manage our operations effectively and/or pursue our business strategy. No company-owned life insurance coverage has been obtained on these team members.

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

We derived approximately 21% of our net sales from sales outside of the United States in the fiscal year ended July 31, 2014. Our ability to sell our products and conduct our operations outside of the United States is subject to a number of risks. Local economic, political and labor conditions in each country could adversely affect demand for our products or disrupt our operations in these markets, particularly when local political and economic conditions are unstable. In addition, international sales and operations are subject to currency exchange fluctuations, fund transfer and trade restrictions and import/export duties, and international operations are subject to foreign regulatory requirements and issues, including with respect to environmental matters. Any of these matters could result in sudden, and potentially prolonged, changes in demand for our products. Also, we may have difficulty enforcing agreements and collecting accounts receivable through a foreign country's legal system.

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

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

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

Section 404 of the Sarbanes-Oxley Act and related SEC rules require that we perform an annual management assessment of the design and effectiveness of our internal control over financial reporting and obtain an opinion from our independent registered public accounting firm on our internal control over financial reporting. Our assessment concluded that our internal control over financial reporting was effective as of July 31, 2014 and we obtained from our independent registered public accounting firm an unqualified opinion on our internal control over financial reporting; however, there can be no assurance that we will be able to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time in future periods. Accordingly, we cannot assure that we will be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to help prevent financial fraud.

If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our Common Stock could drop significantly.

Risks Related to Our Common Stock

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

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

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

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

- that a majority of the board of directors consists of independent directors;
- that we have a nominating and governance committee comprised entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- that we have a compensation committee comprised entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities;
- that we include in our proxy statements certain information regarding compensation consultants and related conflicts of interest; and
- that we conduct an annual performance evaluation of the nominating and corporate governance and compensation committees.

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

The market price for our Common Stock may be volatile.

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

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

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our Common Stock price, regardless of our operating results. Given its relatively small public float, number of shareholders and average daily trading volume, our Common Stock may be

relatively more susceptible to volatility arising from any of these factors. There can be no assurance that the price of our Common Stock will increase in the future or be maintained at its recent levels.

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

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

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 – PROPERTIES

Real Property Holdings and Mineral Reserves

	Land Owned	Land Leased	Land Unpatented Claims	Total	Estimated Proven Reserves	Estimated Probable Reserves	Total
	(acres)				(thousands of tons)		
California	795	—	1,030	1,825	4,367	11,226	15,593
Georgia	3,707	1,840	—	5,547	35,423	24,891	60,314
Illinois	82	598	—	680	3,468	—	3,468
Mississippi	2,156	999	—	3,155	79,004	93,253	172,257
Nevada	535	—	—	535	23,316	2,976	26,292
Oregon	340	—	—	340	—	25	25
Tennessee	178	—	—	178	3,000	3,000	6,000
	7,793	3,437	1,030	12,260	148,578	135,371	283,949

The Mississippi, Georgia, Tennessee, Nevada, California and Illinois properties are primarily mineral in nature, except our research and development facility which is included in the Illinois owned land. We mine sorbent minerals primarily consisting of montmorillonite and attapulgite and, to a lesser extent, other clay-like sorbent materials, such as Antelope shale. We employ geologists and mineral specialists who prepared the estimated reserves of these minerals in the table above. See also Item 1 “Business” above for further information about our reserves. The locations in the table above collectively produced approximately 857,000 tons of finished product in fiscal 2014, 794,000 tons in fiscal 2013 and 824,000 tons in fiscal 2012. Parcels of such land are also sites of manufacturing facilities operated by us. We own approximately one acre of land in Laval, Quebec, Canada, which is the site of the processing and packaging facility for our Canadian subsidiary.

MINING PROPERTIES

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

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

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

MINING AND MANUFACTURING METHODS

Mining and Hauling

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

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

Processing

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

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

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

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

Packaging

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

FACILITIES

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

Oil-Dri Corporation of America Plant Site Locations

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

We have no mortgages on the real property we own. The lease for the Shenzhen, China office expires in 2015 and the Bentonville, Arkansas office lease expires in 2016. The leases for the Alpharetta, Georgia facility and the Chicago, Illinois corporate office space expire in 2018. The Wisbech, United Kingdom facility lease expires in 2032. The lease for the Coppet, Switzerland office is on a year-to-year basis. We consider that our properties are generally in good condition, well maintained and suitable and adequate to carry on our business.

ITEM 3 – LEGAL PROCEEDINGS

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

ITEM 4 – MINE SAFETY DISCLOSURE

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

PART II

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

Our Common Stock is traded on the NYSE under the symbol ODC. There is no established trading market for our Class B Stock. There are no shares of Class A Common Stock currently outstanding. See Note 8 of the Notes to the Consolidated Financial Statements for a description of our Common Stock, Class B Stock and Class A Common Stock. The number of holders of record of Common Stock and Class B Stock on September 30, 2014 were 642 and 29, respectively, as reported by our transfer agent. In the last three years, we have not sold any securities which were not registered under the Securities Act of 1933.

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

	Common Stock Price Range		Cash Dividends Per Share	
	Low	High	Common Stock	Class B Stock
Fiscal 2014:				
First Quarter	$30.35	$36.80	$0.1900	$0.1425
Second Quarter	$32.90	$41.74	0.1900	0.1425
Third Quarter	$31.24	$36.27	0.1900	0.1425
Fourth Quarter	$28.71	$34.90	0.2000	0.1500
Total			$0.7700	$0.5775
Fiscal 2013:				
First Quarter	$21.26	$23.77	$0.1800	$0.1350
Second Quarter	$20.82	$30.34	0.3600	0.2700
Third Quarter	$23.92	$28.52	—	—
Fourth Quarter	$25.30	$32.40	0.1900	0.1425
Total			$0.7300	$0.5475

Dividends. Our Board of Directors determines the timing and amount of any dividends. Our Board of Directors may change its dividend practice at any time. The declaration and payment of future dividends, if any, will depend upon, among other things, our future earnings, capital requirements, financial condition, legal requirements, contractual restrictions and other factors that our Board of Directors deems relevant. Our Credit Agreement with Harris N.A. and our 2005 Note Agreement with The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company require that certain minimum net worth and tangible net worth levels are to be maintained. To the extent that these balances are not attained, our ability to pay dividends may be impaired. See Note 5 of the Notes to the Consolidated Financial Statements for further information about our note agreements.

Issuer Repurchase of Equity Securities. Our Board of Directors authorized the repurchase of 250,000 shares of Common Stock on March 11, 2011 and authorized the repurchase of an additional 250,000 shares on June 14, 2012. These authorizations do not have a stated expiration date. As of July 31, 2014, a total of 309,613 shares of Common Stock may yet be repurchased under these authorizations. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock.

The following chart summarizes our Common Stock purchases during the three months ended July 31, 2014.

ISSUER PURCHASES OF EQUITY SECURITIES [1]

	(a)	(b)	(c)	(d)
For the Three Months Ended July 31, 2014	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under Plans or Programs[2]
May, 1 2014 to May 31, 2014	742	$33.21	—	309,613
June 1, 2014 to June 30, 2014	—	$—	—	309,613
July 1, 2014 to July 31, 2014	—	$—	—	309,613

[1] The table summarizes repurchases of (and remaining authority to repurchase) shares of our Common Stock. We did not repurchase any shares of our Class B Stock during the period covered by the table, 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 8 of the Notes to the Consolidated Financial Statements.

[2] The share numbers in this column indicate the number of shares of Common Stock that may yet be repurchased under our Board of Director authorizations described above.

Equity Compensation Plan Information. The following table presents information about compensation plans under which our equity securities are authorized for issuance. See Note 9 of the Notes to the Consolidated Financial Statements for further information about these stock-based compensation plans.

Equity Compensation Plan Information As Of
July 31, 2014

	Number of securities to be issued upon exercise of outstanding options (in thousands)	Weighted-average exercise price of outstanding options	Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands)
Plan category	(a)	(b)	(c)
Equity compensation plans approved by stockholders	45	$15.43	552

PERFORMANCE GRAPH

The following graph shows the annual cumulative total stockholders' return for the five years ending July 31, 2014 on an assumed investment of $100 on July 31, 2009 in our Common Stock, the Russell Microcap Index and the Russell 2000-Material and Processing Economic Sector Index. Our Common Stock is included in the Russell Microcap Index and we consider the Russell 2000-Material and Processing Economic Sector Index to be our peer group. The graph assumes all dividends were reinvested. The historical stock price performance of our Common Stock is not necessarily indicative of future stock performance.

Comparative Five-Year Total Returns
Oil-Dri Corporation of America, Russell Microcap Index , Russell 2000-Materials & Processing Index
(Performance results through July 31, 2014)

	2009	2010	2011	2012	2013	2014
Oil-Dri Corporation	$ 100.00	$ 143.96	$ 140.45	$ 154.05	$ 230.86	$ 216.17
Russell Microcap	$ 100.00	$ 115.92	$ 141.32	$ 142.53	$ 195.43	$ 211.58
Russell 2000-Materials & Processing	$ 100.00	$ 123.22	$ 160.32	$ 150.49	$ 204.26	$ 225.39

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

ITEM 6 – SELECTED FINANCIAL DATA
FIVE YEAR SUMMARY OF FINANCIAL DATA
(In thousands, except for per share amounts and ratios)

	Fiscal Year Ended July 31,				
	2014	2013	2012	2011	2010
Summary of Operations					
Net Sales	$266,313	$250,583	$240,681	$226,755	$219,050
Cost of Sales	(206,663)	(184,084)	(181,676)	(176,715)	(169,362)
Gross Profit	59,650	66,499	59,005	50,040	49,688
Selling, General and Administrative Expenses	(47,232)	(47,558)	(47,303)	(36,331)	(36,139)
Capacity Rationalization Charges (1)	—	(70)	(1,623)	—	—
Income from Operations	12,418	18,871	10,079	13,709	13,549
Other Income (Expense)					
Interest Income	23	34	31	61	126
Interest Expense	(1,569)	(1,773)	(2,060)	(2,053)	(1,345)
Foreign Exchange Gains (Losses)	35	(56)	(196)	(22)	(213)
Other, Net	430	423	507	446	697
Total Other Expense, Net	(1,081)	(1,372)	(1,718)	(1,568)	(735)
Income before Income Taxes	11,337	17,499	8,361	12,141	12,814
Income Taxes	(2,981)	(2,913)	(2,263)	(3,090)	(3,356)
Net Income	$8,356	$14,586	$6,098	$9,051	$9,458
Average Shares Outstanding					
Diluted	7,004	6,927	7,062	7,103	7,275
Net Income per Share					
Basic Common	$1.27	$2.25	$0.92	$1.36	$1.42
Basic Class B Common	$0.96	$1.69	$0.70	$1.06	$1.07
Diluted	$1.17	$2.07	$0.85	$1.26	$1.30
Important Highlights					
Total Assets	$186,204	$183,559	$174,267	$173,393	$153,982
Long-Term Debt	$18,900	$22,400	$25,900	$29,700	$14,800
Working Capital	$54,016	$71,925	$66,080	$65,336	$48,398
Working Capital Ratio	2.8	3.3	3.3	3.5	2.7
Book Value per Share	$14.94	$14.96	$12.19	$13.63	$12.77
Dividends Declared	$5,040	$4,712	$4,511	$4,305	$4,041
Dividends Declared per Common Share	$0.7700	$0.7300	$0.6900	$0.6500	$0.6100
Dividends Declared per Class B Common Share	$0.5775	$0.5475	$0.5175	$0.4875	$0.4575
Capital Expenditures	$18,566	$9,795	$6,960	$13,806	$10,413
Depreciation and Amortization	$10,396	$8,946	$9,272	$8,473	$7,371
Net Income as a Percent of Net Sales	3.1%	5.8%	2.5%	4.0%	4.3%
Return on Average Stockholders' Equity	8.1%	15.5%	6.8%	9.7%	10.5%
Gross Profit as a Percent of Net Sales	22.4%	26.5%	24.5%	22.1%	22.7%
Operating Expenses as a Percent of Net Sales	17.7%	19.0%	20.3%	16.0%	16.5%

(1) In fiscal years 2012 and 2013, one-time charges were incurred for the relocation of production of our industrial floor absorbent and cat litter products from our facility located in Mounds, Illinois to our plants located in Mississippi. See Note 2 of the Notes to the Consolidated Financial Statements for further information about the production relocation charge.

25

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the Consolidated Financial Statements and the related notes included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include those discussed under "Forward-Looking Statements" and in Item 1A "Risk Factors" in this Annual Report on Form 10-K.

OVERVIEW

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

Consolidated net income was $8,356,000, or $1.17 per diluted share, for the year ended July 31, 2014, a 43% decrease from net income of $14,586,000, or $2.07 per diluted share, for the year ended July 31, 2013. During fiscal 2014 we made substantial business investments in both of our operating segments, including the acquisition of certain assets of MFM, which expanded our private label cat litter business, and the opening of our subsidiary in Shenzhen, China, which extended the presence of our animal health and nutrition products in China through a direct sales force. In addition, we increased spending for trade promotions and advertising of our cat litter products and invested significantly in capital at our plant facilities for equipment and capacity expansion. We also experienced cost increases to mine, manufacture and transport our products during fiscal 2014. Rising costs for natural gas, freight and packaging, as well as increased mining costs to extract clay deeper in the ground all impacted our annual results.

We believe our balance sheet remains strong at the end of fiscal 2014, even though cash, cash equivalents and short-term investments declined. Major uses of cash included capital expenditures, the MFM acquisition, advertising, dividend payments and debt repayments. We believe cash requirements for capital expenditures in fiscal 2015 will be comparable to fiscal 2014 due to projects at our manufacturing facilities. Advertising and promotions spending is also anticipated to be a significant use of cash in fiscal 2015, but we believe at levels slightly less than in fiscal 2014. Our cash requirements are subject to change as business conditions warrant and opportunities arise.

RESULTS OF OPERATIONS
FISCAL 2014 COMPARED TO FISCAL 2013

CONSOLIDATED RESULTS

Consolidated net sales for the year ended July 31, 2014 were $266,313,000, a 6% increase from net sales of $250,583,000 in fiscal 2013. Net sales in our Retail and Wholesale Products Group increased due to more tons sold, including additional sales after the acquisition of MFM, and net sales in our Business to Business Products Group increased due to higher net selling prices and a favorable product sales mix (defined as a greater proportion of sales from higher priced products).

Consolidated gross profit as a percentage of net sales in fiscal 2014 decreased to 22% from 27% in fiscal 2013. Gross profit declined due primarily to the increased costs of packaging and freight, as described by operating segment below, and due to higher material costs per ton, which included a 21% increase in the cost of natural gas used to operate kilns that dry our clay during processing. Material costs also included a 4% increase in non-fuel manufacturing cost per ton, which was attributed to higher purchased material costs, including purchased additives, fragrances and other materials required for the production of scoopable cat litters, as well as higher costs for labor and increased mining and hauling activity. We continue to pursue operational efficiencies as we integrate the additional volume gained through the acquisition of MFM. Our mining and hauling operations have been impacted by the increased volume and by extraction of clay reserves that require more overburden removal. In addition, gross profit was impacted by increased sales of private label cat litter, which generally has a lower gross profit margin than branded cat litter.

Selling, general and administrative expenses as a percentage of net sales were 18% in fiscal 2014, compared to 19% in fiscal 2013. The discussions of each segment's operating income below describe the changes in selling, general and administrative expenses that were allocated to the operating segments. The remaining unallocated corporate expenses in fiscal 2014 included a lower estimated annual discretionary incentive plan bonus accrual and lower pension expense, which were partially offset by an increase in expense for the supplemental employee retirement plan (“SERP”). The incentive bonus expense was based on performance targets that are established for each fiscal year and discretionary authority by our Chief Executive Officer. See Notes 10 and 11 of the Notes to the Consolidated Financial Statements for additional information about the pension plan and the SERP, respectively.

Our effective tax rate was 26.3% of pre-tax income in fiscal 2014 compared to 16.6% in fiscal 2013. Our tax rate in fiscal 2014 was consistent with the three years preceding fiscal 2013. During fiscal 2013 we utilized domestic AMT credits, which resulted in a lower federal income tax rate; however, in fiscal 2014 we incurred additional AMT expense. See Note 7 of the Notes to the Consolidated Financial Statements for additional information about our income taxes.

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

BUSINESS TO BUSINESS PRODUCTS GROUP

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

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

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

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal 2014 were $172,027,000, an increase of $14,413,000, or 9%, from net sales of $157,614,000 in fiscal 2013. Net sales increased significantly for cat litter products and increased slightly for both industrial absorbent and sports products; however, net sales decreased for our foreign subsidiaries. Our foreign subsidiaries' net sales are described under “Foreign Operations” below. Overall cat litter net sales increased approximately 13%. The benefits of higher sales volume was partially offset by higher trade spending (trade spending is deducted from net sales and includes coupons, slotting and cooperative marketing programs). Our branded cat litter net sales increased approximately 10% due primarily to more tons sold and higher selling prices that outweighed increased trade spending. Net sales of our Cat's Pride Fresh & Light scoopable products increased approximately 33% and sales also improved for our other Cat's Pride scoopable cat litters. These increases were partially offset by lower sales for our branded coarse litter products. Private label cat litter net sales increased approximately 24% due in part to additional sales from the acquisition of MFM. (See Note 3 of the Notes to the Consolidated Financial Statements for more information about the MFM acquisition.)

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

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

FOREIGN SUBSIDIARIES

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

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

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

RESULTS OF OPERATIONS

FISCAL 2013 COMPARED TO FISCAL 2012

CONSOLIDATED RESULTS

Consolidated net sales for the year ended July 31, 2013 were $250,583,000, a 4% increase from net sales of $240,681,000 in fiscal 2012. Net sales improved due primarily to: increased sales in our Business to Business Products Group; lower trade spending in our Retail and Wholesale Products Group; higher selling prices; and a favorable product sales mix. Our Business to Business Products Group also benefited from more tons sold.

Consolidated gross profit as a percentage of net sales in fiscal 2013 increased to 27% from 25% in fiscal 2012. Gross profit improved due to the higher sales described above, a greater proportion of sales from higher margin products and lower costs for packaging. Partially offsetting these positive impacts were higher freight and material costs per ton, as described by operating segment below. Material costs were also effected by a 4% increase in the fuel cost per ton produced, primarily for natural gas used to operate kilns that dry our clay.

Selling, general and administrative expenses as a percentage of net sales were 19% in fiscal 2013, compared to 20% in fiscal 2012. The discussions of each segment's operating income below describe the changes in selling, general and administrative expenses that were allocated to the operating segments, including approximately $3,000,000 lower advertising costs in the Retail and Wholesale Products Group. The remaining unallocated corporate expenses in fiscal

2013 included a higher estimated annual incentive plan bonus accrual. The incentive bonus expense was based on performance targets that are established for each fiscal year. Expenses also increased for the pension plan and for research and development, but decreased for the SERP. See Notes 10 and 11 of the Notes to the Consolidated Financial Statements for additional information about the pension plan and the SERP, respectively.

Our effective tax rate was 16.6% of pre-tax income in fiscal 2013 compared to 27.1% in fiscal 2012. During fiscal 2013, we utilized approximately $1,369,000 of our domestic AMT attributes. We correspondingly reduced the domestic AMT valuation allowance that had been established in prior years, which resulted in a lower federal income tax rate. See Note 7 of the Notes to the Consolidated Financial Statements for additional information about our income taxes.

Consolidated net income for fiscal 2013 was $14,586,000, a 139% increase from net income of $6,098,000 in fiscal 2012. Net income was positively impacted by a lower effective tax rate, higher net sales and lower advertising and promotion costs. These positive factors more than offset increased costs for our incentive bonus, freight and materials. Segment operating income was higher for both our Business to Business and Retail and Wholesale Products Groups as discussed below.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for fiscal 2013 were $92,969,000, an increase of $7,513,000, or 9%, from net sales of $85,456,000 in fiscal 2012. Net sales of fluid purification products, animal health products and co-packaged cat litter all increased, while net sales of agricultural and horticultural products decreased. Net sales of fluid purification products were approximately 13% greater than in fiscal 2012 with an 11% increase in tons sold. Sales to edible oil, biodiesel and petroleum oil processors improved in both foreign and domestic markets. Sales to new customers and higher sales to existing customers were driven by global growth in edible oil production. Net sales of animal health and nutrition products increased approximately 31% due primarily to a favorable product sales mix and 14% more tons sold. Sales of our enterosorbent animal health products increased in both foreign and domestic markets, including both new customers and increased sales to existing customers. Our co-packaged traditional coarse cat litter net sales increase of approximately 4% was attributed primarily to 2% more tons sold and higher selling prices. A sales decline of approximately 7% for our agricultural and horticultural products was caused primarily by 12% fewer tons sold. Sales decreased for products used in horticultural applications and for our engineered granule product used in the professional pesticides and agricultural markets.

The Business to Business Products Group’s operating income was $30,739,000 in fiscal 2013, an increase of $2,096,000, or 7%, from operating income of $28,643,000 in fiscal 2012. The benefit from improved sales described above was partially offset by higher freight and material costs per ton. Freight cost increases of approximately 7% per ton were driven primarily by more shipments to foreign countries, higher diesel fuel prices and other cost increases in the freight industry due to recent trends and regulations. Material costs increased approximately 9% per ton. Certain products in the Business to Business Group received greater fixed manufacturing cost allocations subsequent to the production relocation for certain products between our plants, as discussed in Note 2 of the Notes to the Consolidated Financial Statements. See further discussion of manufacturing costs in “Consolidated Results” above.

The Business to Business Products Group’s selling, general and administrative expenses in fiscal 2013 increased approximately 5% compared to fiscal 2012 due primarily to costs incurred to expand sales of our animal health and nutrition products in foreign markets.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal 2013 were $157,614,000, an increase of $2,389,000, or 2%, from net sales of $155,225,000 in fiscal 2012. Net sales increased for cat litter products and for our foreign subsidiaries, but decreased for industrial absorbent products. Our foreign subsidiaries' net sales are described under “Foreign Operations” below. Overall cat litter net sales increased approximately 2% as the result of lower trade spending and higher selling prices, which outweighed a 6% decline in tons sold. Our branded cat litter net sales increase of approximately 5% was attributed primarily to approximately 59% higher sales of our Cat's Pride Fresh & Light scoopable products and reduced trade spending. These increases were partially offset by lower sales for our other Cat's Pride scoopable and coarse litter products. Private label cat litter sales were down approximately 3% due primarily to the continued decline in the coarse cat litter market, as well as a market trend away from private label cat litter products. Industrial absorbents net sales were down approximately 3% with a 7% decline in tons sold.

The Retail and Wholesale Products Group’s segment operating income for fiscal 2013 was $10,561,000, an increase of $8,463,000, from operating income of $2,098,000 in fiscal 2012. The Group's operating income was positively impacted by the higher sales described above, by lower selling, general and administrative expenses, as discussed below, and by an approximate 1% decrease in packaging costs per ton. The Group's operating income was negatively impacted by approximately12% higher freight costs per ton due to more shipments to customers in regions with higher freight costs, higher diesel fuel prices and other cost increases in the freight industry due to recent trends and regulations. In addition, material costs per ton increased approximately 5% primarily as the result of more purchased additives, fragrances and other materials required for the production of scoopable cat litters. See further discussion of manufacturing costs in “Consolidated Results” above.

Selling, general and administrative expenses for the Retail and Wholesale Products Group decreased approximately 15% compared to fiscal 2012. We incurred substantial spending to advertise and promote our new Cat's Pride Fresh and Light cat litter products in fiscal 2012.

FOREIGN SUBSIDIARIES

Net sales by our foreign subsidiaries during fiscal 2013 were $11,928,000, an increase of $629,000, or 6%, from net sales of $11,299,000 during fiscal 2012. Net sales by our foreign subsidiaries represented 5% of our consolidated net sales during fiscal year 2013. Net sales increased 16% for our United Kingdom subsidiary and 3% for our Canadian subsidiary. Bleaching earth sales by our United Kingdom subsidiary increased primarily due to a new customer. Branded cat litter sales by our Canadian subsidiary increased, while industrial product sales were relatively flat.

For fiscal 2013, our foreign subsidiaries reported a net loss of $176,000, compared to a net loss of $876,000 in fiscal 2012. The decrease in the net loss was primarily the result of higher sales and a reduction in overhead costs at our Canadian subsidiary.

Identifiable assets of our foreign subsidiaries as of July 31, 2013 were $8,298,000 compared to $8,702,000 as of July 31, 2012. The decrease was primarily due to lower cash, inventories and net fixed assets, which were partially offset by higher accounts receivable.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include funding working capital needs, purchasing and upgrading equipment, facilities and real estate, investing in infrastructure and acquisitions. We have principally used cash generated from operations and, to the extent needed, issuance of debt securities and borrowings under our credit facilities to fund these requirements. Cash and cash equivalents totaled $16,230,000, $24,035,000 and $27,093,000 at July 31, 2014, 2013 and 2012, respectively.

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

	Fiscal Year Ended		
	July 31, 2014	July 31, 2013	July 31, 2012
Net cash provided by operating activities	$16,296	$23,366	$23,339
Net cash used in investing activities	(15,570)	(19,018)	(270)
Net cash used in financing activities	(8,372)	(7,450)	(13,889)
Effect of exchange rate changes on cash and cash equivalents	(159)	44	28
Net (decrease) increase in cash and cash equivalents	$(7,805)	$(3,058)	$9,208

Net cash provided by operating activities

Net cash provided by operations was $16,296,000 for fiscal 2014 compared to $23,366,000 for fiscal 2013. In addition to net income, as adjusted for depreciation and amortization and other non-cash operating activities, the primary sources and uses of operating cash flows for fiscal years 2014 and 2013 were as follows:

Accounts receivable, less allowance for doubtful accounts, were $151,000 lower at fiscal year-end 2014 compared to fiscal year-end 2013. The decrease was attributed primarily to improved cash collections in the fourth quarter of fiscal 2014. Accounts receivable, less allowance for doubtful accounts, were $920,000 higher at fiscal year-end 2013 compared to fiscal year-end 2012. The increase was attributed primarily to higher fiscal 2013 fourth quarter sales compared to fiscal 2012 fourth quarter sales. The change in both periods was subject to timing of sales and collections and the payment terms provided to various customers.

Inventories were $2,966,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. Increased finished goods and packaging inventory at fiscal year-end 2014 were the result of both higher costs and increased quantities on hand. Inventories were $1,050,000 higher at fiscal year-end 2013 compared to fiscal year-end 2012. Increased finished

goods inventory values at fiscal year-end 2013 were attributed to higher costs. Inventories of additives and fragrances increased as the result of production trends for certain products, including scoopable cat litter.

Prepaid expenses were $1,988,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 due primarily to an increase in prepaid income taxes and new plant assets with a short-term expected life. Prepaid expenses were $1,416,000 lower at fiscal year-end 2013 compared to fiscal year-end 2012 due primarily to a decrease in prepaid income taxes.

Other assets were $817,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013. The increase was due to higher cash surrender value of life insurance on former key employees and a long-term warranty obtained on certain leased plant assets. Other assets were $1,025,000 higher at fiscal year-end 2013 compared to fiscal year-end 2012. During fiscal 2013 a joint infrastructure project with a local government at one of our plant locations resulted in an other asset of approximately $740,000. A higher cash surrender value of life insurance on former key employees also contributed to the increase in 2013.

Accounts payable were $187,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 due primarily to increased costs of purchased materials, which was partially offset by lower income taxes payable. Accounts payable were $135,000 higher at fiscal year-end 2013 compared to fiscal year-end 2012 due primarily to increased income taxes payable, which was partially offset by lower trade accounts payable. Changes in trade accounts payable in all periods are subject to normal fluctuations in the timing of payments.

Accrued expenses were $2,586,000 lower at fiscal year-end 2014 compared to fiscal year-end 2013. Accrued expenses for fiscal 2014 declined due primarily due to the lower discretionary annual bonus accrual. In addition, the trade promotions and advertising accrual was lower at fiscal year-end 2014. These decreases were partially offset by a new lease obligation for assets at our plants. Accrued expenses were $2,159,000 higher at fiscal year-end 2013 compared to fiscal year-end 2012. Accrued expenses for fiscal 2013 were higher for both the discretionary bonus and accrued costs related to capital projects at our manufacturing facilities. These increases were partially offset by lower accrued advertising expense. Changes in other accrued expenses in all periods related to ongoing operations are also subject to normal fluctuations in the timing of payments.

Deferred compensation was $698,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 and was $452,000 higher at fiscal year-end 2013 compared to fiscal 2012. Employee deferrals and interest on accumulated deferred compensation balances exceeded payouts in both years. The increase at fiscal year-end 2014 also included a higher accrual for the SERP due to a decrease in the discount rate used and the use of an updated mortality table to actuarially value the obligation. At fiscal year-end 2013, a higher discount rate resulted in a lower SERP accrual compared to the prior year. See Note 11 of the Notes to the Consolidated Financial Statements for more information regarding our deferred compensation plans.

Pension and other postretirement liabilities, net of the adjustment recorded in stockholders' equity, were $2,887,000 higher at fiscal year-end 2014 compared to fiscal year-end 2013 and were $1,896,000 lower at fiscal year-end 2013 compared to fiscal year-end 2012. A lower discount rate and the use of an updated mortality table required for the actuarial calculation of postretirement benefit obligations resulted in a significantly higher liability at fiscal year-end 2014. At fiscal year-end 2013, a higher discount rate resulted in a significantly lower liability. See Note 10 of the Notes to the Consolidated Financial Statements for more information regarding our postretirement benefit plans.

Net cash used in investing activities

Cash used in investing activities was $15,570,000 in fiscal 2014 compared to $19,018,000 in fiscal 2013. Dispositions of investment securities were $15,821,000 greater than purchases in fiscal 2014. During fiscal 2014, some of the proceeds from investment dispositions were used for the $12,876,000 acquisition of certain assets of MFM, plus an additional $129,000 was classified as restricted cash held in escrow as of July 31, 2014. See Note 3 of the Notes to the Consolidated Financial Statements for more information about the MFM acquisition. Cash used for capital expenditures of $18,566,000 in fiscal 2014 included capacity expansion projects and mining equipment at our manufacturing facilities. Capital expenditures in fiscal 2013 of $9,795,000 included replacement and new machinery at our manufacturing facilities. Purchases and dispositions of investment securities in both periods are also subject to variations in the timing of investment maturities.

Cash used in investing activities was $19,018,000 in fiscal 2013 compared to $270,000 in fiscal 2012. Purchases of investment securities were $9,289,000 greater than dispositions in fiscal 2013. In fiscal 2012, dispositions of investment securities exceeded purchases by $6,659,000. Purchases and dispositions of investment securities in both periods are subject to variations in the timing of investment maturities. Cash used for capital expenditures of $9,795,000 in fiscal 2013 included replacement and new machinery at our manufacturing facilities. Capital expenditures in fiscal 2012 of $6,960,000 included a new storage facility and replacement of machinery at our manufacturing facilities.

Net cash used in financing activities

Cash used in financing activities was $8,372,000 in fiscal 2014 compared to $7,450,000 in fiscal 2013. Cash used to purchase treasury stock was $87,000 and $175,000 in fiscal 2014 and 2013, respectively. Payments on long-term debt in fiscal 2014 were $3,500,000 compared to $3,800,000 in fiscal 2013. Dividend payments during fiscal 2014 of $4,965,000 were higher than the $4,630,000 paid during fiscal 2013 due to a dividend rate increase. Proceeds from issuance of Common Stock and treasury stock related to stock option exercises were $94,000 and $887,000 in fiscal 2014 and 2013, respectively.

Cash used in financing activities was $7,450,000 in fiscal 2013 compared to $13,889,000 in fiscal 2012. Cash used to purchase treasury stock was $175,000 and $6,247,000 in fiscal 2013 and 2012, respectively. Payments on long-term debt in fiscal 2013 were $3,800,000 compared to $3,600,000 in fiscal 2012. Dividend payments during fiscal 2013 of $4,630,000 were higher than the $4,486,000 paid during fiscal 2012 due to a dividend rate increase. Proceeds from issuance of Common Stock and treasury stock related to stock option exercises were $887,000 and $352,000 in fiscal 2013 and 2012, respectively.

Other

Total cash and investment balances held by our foreign subsidiaries at July 31, 2014, 2013 and 2012 were $1,481,000, $1,413,000 and $1,847,000, respectively. Cash and investment balances fluctuated due to normal business operations. See further discussion in the "Foreign Operations" section above.

We have a $15,000,000 unsecured revolving credit agreement with BMO Harris Bank N.A. ("BMO Harris") which will expire on December 31, 2014. While there can be no assurance regarding the terms, timing or consummation of any successor agreement, on or before the expiration of this agreement, we may enter into a successor credit agreement or other financing arrangement with BMO Harris or another financing source. The credit agreement provides that we may select a variable rate based on either BMO Harris' prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. The credit agreement also allows us to obtain foreign letters of credit when necessary. At July 31, 2014, the variable rates would have been 3.25% for BMO Harris' prime-based rate or 1.56% for LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of July 31, 2014 and 2013, there were no outstanding borrowings under this credit facility and we were in compliance with its covenants.

See Note 5 of the Notes to the Consolidated Financial Statements for information about our outstanding debt.

We believe that cash flow from operations, availability under our current and any successor revolving credit facility and current cash and investment balances will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, dividend payments and debt service obligations for at least the next 12 months. We believe cash requirements for capital expenditures in fiscal 2015 will be comparable to fiscal 2014 due to projects at our manufacturing facilities. Advertising and promotions spending is also anticipated to be a significant use of cash in fiscal 2015, but we believe at levels slightly less than in fiscal 2014. Our cash requirements are subject to change as business conditions warrant and opportunities arise. We continually evaluate our liquidity position and anticipated cash needs, as well as the financing options available to obtain additional cash reserves. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements, including the current credit agreement and any successor agreements, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

Our capital requirements are subject to change as business conditions warrant and opportunities arise. The following tables summarize our significant contractual obligations and commercial commitments as of July 31, 2014 and the effect such obligations are expected to have on liquidity and cash flows in future periods:

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-Term Debt	$22,400,000	$3,500,000	$6,566,000	$6,167,000	$6,167,000
Interest on Long-Term Debt	3,079,000	859,000	1,238,000	738,000	244,000
Capital Leases	1,330,000	1,330,000	—	—	—
Operating Leases	5,894,000	1,527,000	2,463,000	1,369,000	535,000
Total Contractual Cash Obligations	$32,703,000	$7,216,000	$10,267,000	$8,274,000	$6,946,000

During fiscal 2014, we made contributions of approximately $1,043,000 to our defined benefit pension plan. We have not presented this obligation for future years in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets, actuarial assumptions and regulations. See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below for certain information regarding the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Other Commercial Commitments	$30,014,000	$30,014,000	$—	$—	$—

The obligations above are open purchase orders primarily for packaging and other ingredients used in our products. The expected timing of payments of these obligations was estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities. As of July 31, 2014 we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

We maintain valuation allowances where it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could affect the realization of deferred tax assets. For example, certain factors, such as depletion and the cost of fuel used in our manufacturing process, are difficult to predict and have a significant impact on our ability to use the deferred tax benefit related to our AMT credit carryforwards. We recorded valuation allowances for income taxes of $3,973,000 and $3,205,000 at July 31, 2014 and 2013, respectively, for the full amount of the deferred tax benefit related to our AMT credit and foreign net operating loss carryforwards since we believe it is more likely than not that the benefit of these tax attributes will not be realized.

In addition to valuation allowances, we provide for uncertain tax positions when such tax positions do not meet certain recognition thresholds or measurement standards. Amounts for uncertain tax positions are adjusted when new information becomes available or when positions are effectively settled. Our liability for unrecognized tax benefits based on tax positions related to the current and prior fiscal years was zero at July 31, 2014 and $273,000 at July 31, 2013. See Note 7 of the Notes to the Consolidated Financial Statements for further discussion.

Trade Promotions. We routinely commit to one-time or ongoing trade promotion programs in our Retail and Wholesale Products Group. Promotional reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. All such trade promotion costs are netted against sales. Promotional reserves are established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. To estimate trade promotion reserves, we rely on our historical experience with trade spending patterns and that of the industry, current trends and forecasted data. While we believe our promotional reserves are reasonable and that appropriate judgments have been made, estimated amounts could differ from future obligations. We have accrued liabilities at the end of each period for the estimated trade spending programs. We recorded liabilities of approximately $2,044,000 and $2,173,000 for trade promotions at July 31, 2014 and 2013, respectively.

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

The discount rate is the rate assumed to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. The discount rate is subject to change each year. We refer to an applicable index and the expected duration of the benefit payments to select a discount rate at which we believe the benefits could be effectively settled. The discount rate was the single equivalent rate that would yield the same present value as the plan’s expected cash flows discounted with spot rates on a yield curve of investment-grade corporate bonds. The yield curve used in fiscal 2014 was the Citigroup Pension Discount Curve and in fiscal 2013 was the Citigroup Pension Liability Index. Our determination of pension expense or income is based on a market-related valuation of plan assets, which is the fair market value. Our expected rate of return on plan assets is determined based on asset allocations and historical experience. The expected long-term rate of inflation and risk premiums for the various asset categories are based on general historical returns and inflation rates. The target allocation of assets is used to develop a composite rate of

return assumption. See Note 10 of the Notes to the Consolidated Financial Statements for additional information.

Trade Receivables. We recognize trade receivables when the risk of loss and title pass to the customer. We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific accounts. A customer account is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. We believe our allowance for doubtful accounts is reasonable; however, the unanticipated default by a customer with a material trade receivable could occur. We recorded an allowance for doubtful accounts of $707,000 and $641,000 at July 31, 2014 and 2013, respectively.

Inventories. We value inventories at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a detailed review of our inventory items to determine

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if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales divisions to ensure that both historical issues and new market trends are considered. The obsolescence reserve not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at July 31, 2014 and 2013 were $390,000 and $364,000, respectively.

Reclamation. During the normal course of our mining process we remove overburden and perform on-going reclamation activities. As overburden is removed from a mine site, it is hauled to a previously mined site and used to refill older sites. This process allows us to continuously reclaim older mine sites and dispose of overburden simultaneously, therefore minimizing the costs associated with the reclamation process. On an annual basis we evaluate our potential reclamation liability in accordance with ASC 410, Asset Retirement and Environmental Obligations. As of July 31, 2014 and 2013, we have recorded an estimated net reclamation asset of $677,000 and $590,000, respectively, and a corresponding estimated reclamation liability of $1,429,000 as July 31, 2014 and $1,269,000 as of July 31, 2013. These values represent the discounted present value of the estimated future mining reclamation costs at the production plants. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge over the estimated useful lives of the mines.

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

Impairment of goodwill, trademarks and other intangible assets. We review carrying values of goodwill, trademarks and other indefinite-lived intangible assets periodically for possible impairment in accordance ASC 350, Intangibles – Goodwill and Other. Our impairment review requires significant judgment with respect to factors such as volume, revenue and expenses. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is usually performed in the first quarter of the fiscal year and may be re-performed when deemed necessary due to indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts. Our impairment analysis performed in both the first and fourth quarters of fiscal 2014 did not indicate any impairment. We continue to monitor events, circumstances or changes in the business that might imply a reduction in value and might lead to impairment.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

In the first quarter of fiscal 2014 we adopted new guidance from the Financial Accounting Standard Board (“FASB”) issued under Accounting Standard Codification (“ASC”) 220, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance required presentation by the respective net income line items, either on the face of the statement where net income is presented or in the notes, of information about significant amounts required to be reclassified out of accumulated other comprehensive income (“AOCI”). We elected to present the reclassifications in the notes to the financial statements. See Note 8 of the Notes to the Consolidated Financial Statements for additional information regarding amounts reclassified from AOCI.

In the first quarter of fiscal 2014 we considered the FASB guidance issued under ASC 350, Testing Indefinite-Lived Intangible Assets for Impairment, which provides the option to first assess qualitative factors to determine if the annual two-step test for impairment must be performed. We did not elect to perform a qualitative assessment and continued to perform a quantitative analysis to measure potential indefinite-lived intangible asset impairment. There

was no impact on our Consolidated Financial Statements as a result of this new guidance.

Recently Issued Accounting Standards and Regulations

In September 2013, the IRS released final tangible property regulations ("repair regulations") under Sections 162(a) and 263(a) of the Internal Revenue Code, regarding the deduction and capitalization of amounts paid to acquire, produce, or improve tangible property. The repair regulations provide guidance on the timing of deduction for tangible property and repairs. The final regulations replace temporary regulations that were issued in March 2011 and are effective for our tax year beginning August 1, 2014, with early adoption permitted for tax years beginning January 1, 2012. We do not believe these regulations will have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued guidance under ASC 250, Revenue from Contract with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Transition options include either a full or modified retrospective approach and early adoption is not permitted. This guidance will be effective at the beginning of our first quarter of fiscal 2017. We are currently evaluating the impact of the adoption of these requirement on our Consolidated Financial Statements.

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

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to foreign currency fluctuation risk, primarily U.S. Dollar/British Pound, U.S. Dollar/Euro and U.S. Dollar/Canadian Dollar, as it relates to certain accounts receivables and to our foreign operations. We are 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 net sales or net income. In addition, a small portion of our consolidated accounts receivable are denominated in foreign currencies. During fiscal 2014, we did not enter into any hedge contracts to reduce exposure to fluctuations in currency exchange rates. We believe that the overall foreign currency fluctuation risk is immaterial to our Consolidated Financial Statements.

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

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

We are exposed to commodity price risk with respect to fuel. Factors that could influence the cost of natural gas used in the kilns to dry our clay include the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, general supply and demand for natural gas, seasonality and the weather patterns throughout the United States and the world. We monitor fuel market trends and we may contract for a portion of our anticipated fuel needs using forward purchase contracts to mitigate the volatility of our kiln fuel prices. As of July 31, 2014, we have purchased no natural gas contracts for our planned kiln fuel needs for fiscal 2015. We continue to purchase natural gas at spot rates on a month to month basis.

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

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

	July 31, 2014	2013
ASSETS	(in thousands)	
Current Assets		
Cash and cash equivalents	$16,230	$24,035
Restricted cash	129	—
Short-term investments	2,640	18,459
Accounts receivable, less allowance of $707 and $641 in 2014 and 2013, respectively	30,997	31,148
Inventories	24,483	20,723
Deferred income taxes	1,570	3,986
Prepaid repairs expense	3,722	3,458
Prepaid expenses and other assets	3,745	1,563
Total Current Assets	83,516	103,372
Property, Plant and Equipment		
Buildings and leasehold improvements	28,557	28,475
Machinery and equipment	120,081	112,056
Office furniture and equipment	10,244	9,880
Vehicles	12,099	11,615
Gross depreciable assets	170,981	162,026
Less accumulated depreciation and amortization	(124,199)	(118,082)
Net depreciable assets	46,782	43,944
Construction in progress	11,759	5,845
Land and mineral rights	16,355	16,266
Total Property, Plant and Equipment, Net	74,896	66,055
Other Assets		
Goodwill	9,034	5,162
Trademarks and patents, net of accumulated amortization of $420 and $427 in 2014 and 2013, respectively	660	581
Debt issuance costs, net of accumulated amortization of $522 and $455 in 2014 and 2013, respectively	243	309
Licensing agreements and non-compete agreements, net of accumulated amortization of $1,145 and $1,861 in 2014 and 2013, respectively	155	378
Customer list, net of accumulated amortization of $764 in 2014	7,020	—
Deferred income taxes	4,448	2,164
Other	6,232	5,538
Total Other Assets	27,792	14,132
Total Assets	$186,204	$183,559

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

	July 31,	
	2014	2013
LIABILITIES AND STOCKHOLDERS' EQUITY	(in thousands)	
Current Liabilities		
Current maturities of notes payable	$3,500	$3,500
Accounts payable	7,352	6,483
Dividends payable	1,311	1,236
Accrued expenses		
Salaries, wages and commissions	4,448	9,087
Trade promotions and advertising	2,182	2,824
Freight	2,504	2,154
Other	8,203	6,163
Total Current Liabilities	29,500	31,447
Noncurrent Liabilities		
Notes payable	18,900	22,400
Deferred compensation	9,267	8,569
Pension and postretirement benefits	22,273	16,362
Other	1,956	1,843
Total Noncurrent Liabilities	52,396	49,174
Total Liabilities	81,896	80,621
Stockholders' Equity		
Common Stock, par value $.10 per share, issued 7,917,393 shares in 2014 and 7,866,560 shares in 2013	792	787
Class B Stock, convertible, par value $.10 per share, issued 2,394,735 shares in 2014 and 2,394,487 shares in 2013	239	239
Additional paid-in capital	33,130	31,317
Restricted unearned stock compensation	(2,225)	(1,824)
Retained earnings	136,039	132,750
Accumulated Other Comprehensive Income		
Unrealized gain on marketable securities	114	86
Pension and postretirement benefits	(8,632)	(5,608)
Cumulative translation adjustment	255	487
Total Accumulated Other Comprehensive Income	(8,263)	(5,035)
Less treasury stock, at cost (2,915,651 Common and 324,741 Class B shares in 2014 and 2,914,567 Common and 324,741 Class B shares in 2013)	(55,404)	(55,296)
Total Stockholders' Equity	104,308	102,938
Total Liabilities and Stockholders' Equity	$186,204	$183,559

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended July 31,		
	2014	2013	2012
	(in thousands, except for per share data)		
Net Sales	$266,313	$250,583	$240,681
Cost of Sales	(206,663)	(184,084)	(181,676)
Gross Profit	59,650	66,499	59,005
Selling, General and Administrative Expenses	(47,232)	(47,558)	(47,303)
Capacity Rationalization Charges	—	(70)	(1,623)
Income from Operations	12,418	18,871	10,079
Other Income (Expense)			
Interest income	23	34	31
Interest expense	(1,569)	(1,773)	(2,060)
Foreign exchange loss	35	(56)	(196)
Other, net	430	423	507
Total Other Expense, Net	(1,081)	(1,372)	(1,718)
Income Before Income Taxes	11,337	17,499	8,361
Income Taxes	(2,981)	(2,913)	(2,263)
Net Income	$8,356	$14,586	$6,098
Net Income Per Share			
Basic Common	$1.27	$2.25	$0.92
Basic Class B Common	$0.96	$1.69	$0.70
Diluted	$1.17	$2.07	$0.85
Average Shares Outstanding			
Basic Common	4,981	4,909	5,063
Basic Class B Common	2,001	1,970	1,934
Diluted	7,004	6,927	7,062

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended July 31,		
	2014	2013	2012
	(in thousands)		
Net Income	$8,356	$14,586	$6,098
Other Comprehensive Income:			
Unrealized gain on marketable securities	28	14	1
Pension and postretirement benefits (net of tax)	(3,024)	5,983	(6,276)
Cumulative translation adjustment	(232)	(86)	(226)
Other Comprehensive (Loss) Income	(3,228)	5,911	(6,501)
Comprehensive Income (Loss)	$5,128	$20,497	$(403)

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Shares		(in thousands)						
	Common & Class B Stock	Treasury Stock	Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Restricted Unearned Stock Compensation	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance, July 31, 2011	10,123,183	(2,967,128)	$1,012	$29,213	$121,388	$(2,446)	$(49,424)	$(4,445)	$95,298
Net Income			—	—	6,098	—	—	—	6,098
Other Comprehensive (Loss) Income			—	—	—	—	—	(6,501)	(6,501)
Dividends Declared			—	—	(4,511)	—	—	—	(4,511)
Purchases of Treasury Stock		(296,427)	—	—	—	—	(6,247)	—	(6,247)
Net Issuance of Stock Under Long-Term Incentive Plans	37,917	27,250	4	448	(74)	(488)	463	—	353
Share-based Compensation			—	98	—	—	—	—	98
Amortization of Restricted Stock			—	—	—	720	—	—	720
Balance, July 31, 2012	10,161,100	(3,236,305)	$1,016	$29,759	$122,901	$(2,214)	$(55,208)	$(10,946)	$85,308
Net Income			—	—	14,586	—	—	—	14,586
Other Comprehensive (Loss) Income			—	—	—	—	—	5,911	5,911
Dividends Declared			—	—	(4,712)	—	—	—	(4,712)
Purchases of Treasury Stock		(8,253)	—	—	—	—	(175)	—	(175)
Net Issuance of Stock Under Long-Term Incentive Plans	99,947	5,250	10	1,289	(25)	(474)	87	—	887
Share-based Compensation			—	269	—	—	—	—	269
Amortization of Restricted Stock			—	—	—	864	—	—	864
Balance, July 31, 2013	10,261,047	(3,239,308)	$1,026	$31,317	$132,750	$(1,824)	$(55,296)	$(5,035)	$102,938
Net Income			—	—	8,356	—	—	—	8,356
Other Comprehensive (Loss) Income			—	—	—	—	—	(3,228)	(3,228)
			—	—	(5,040)	—	—	—	(5,040)

Dividends Declared									
Purchases of Treasury Stock		(2,584)	—	—	—	—	(87)	—	(87)
Net Issuance of Stock Under Long-Term Incentive Plans	51,081	1,500	5	1,727	(27)	(1,590)	(21)	—	94
Share-based Compensation			—	86	—	—	—	—	86
Amortization of Restricted Stock			—	—	—	1,189	—	—	1,189
Balance, July 31, 2014	10,312,128	(3,240,392)	$1,031	$33,130	$136,039	$(2,225)	$(55,404)	$(8,263)	$104,308

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

41

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year-Ended July 31		
	2014	2013	2012
	(in thousands)		
Cash Flows from Operating Activities			
Net Income	$8,356	$14,586	$6,098
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,396	8,946	9,272
Amortization of investment (discounts) premiums	(2)	(7)	15
Non-cash stock compensation expense	1,189	864	727
Excess tax benefits for share-based payments	(86)	(268)	(92)
Deferred income taxes	284	(398)	(2,568)
Provision for bad debts	69	64	32
Loss on the sale of property, plant and equipment	452	8	445
Capacity rationalization charges	—	70	1,623
(Increase) decrease in:			
Accounts receivable	82	(984)	(1,026)
Inventories	(2,966)	(1,050)	(456)
Prepaid expenses	(1,988)	1,416	1,878
Other assets	(817)	(1,025)	(510)
Increase (decrease) in:			
Accounts payable	187	135	456
Accrued expenses	(2,586)	2,159	1,622
Deferred compensation	698	452	921
Pension and postretirement benefits	2,887	(1,896)	4,730
Other liabilities	141	294	172
Total Adjustments	7,940	8,780	17,241
Net Cash Provided by Operating Activities	16,296	23,366	23,339
Cash Flows from Investing Activities			
Capital expenditures	(18,566)	(9,795)	(6,960)
Proceeds from sale of property, plant and equipment	180	66	31
Acquisition of business	(12,876)	—	—
Restricted cash	(129)	—	—
Purchases of short-term investments	(10,391)	(34,439)	(17,601)
Dispositions of short-term investments	26,212	25,150	24,260
Net Cash Used in Investing Activities	(15,570)	(19,018)	(270)
Cash Flows from Financing Activities			
Principal payments on notes payable	(3,500)	(3,800	