

OIL DRI CORP OF AMERICA
Form 10-Q
March 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d)
of the
Securities Exchange Act of 1934
For the Quarterly Period Ended January 31, 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
(Exact name of the registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

60611-4213
(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of January 31, 2014.

Common Stock – 4,978,567 Shares and Class B Stock – 2,074,927 Shares

CONTENTS

PART I – FINANCIAL INFORMATION		
Item 1:	<u>Financial Statements</u>	Page <u>3</u>
Item 2:	<u>Management’s Discussion and Analysis of Financial Condition and Results Of Operations</u>	<u>18</u>
Item 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
Item 4:	<u>Controls and Procedures</u>	<u>27</u>
PART II – OTHER INFORMATION		
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	<u>28</u>
Item 4:	<u>Mine Safety Disclosures</u>	<u>28</u>
Item 6:	<u>Exhibits</u>	<u>29</u>
	<u>Signatures</u>	<u>30</u>

FORWARD-LOOKING STATEMENTS

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

Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially, including those described in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended July 31, 2013. Should one or more of these or other risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, intended, expected, believed, estimated, projected or planned. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except to the extent required by law, we do not have any intention or obligation to update publicly any forward-looking statements after the distribution of this report, whether as a result of new information, future events, changes in assumptions or otherwise.

TRADEMARK NOTICE

Cat’s Pride, Fresh & Light and Oil-Dri are registered trademarks of Oil-Dri Corporation of America.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

ASSETS	January 31, 2014	July 31, 2013
Current Assets		
Cash and cash equivalents	\$12,082	\$24,035
Restricted cash	500	—
Short-term investments	7,100	18,459
Accounts receivable, less allowance of \$683 and \$641 at January 31, 2014 and July 31, 2013, respectively	37,022	31,148
Inventories	22,734	20,723
Deferred income taxes	3,540	3,986
Prepaid repairs expense	3,288	3,458
Prepaid expenses and other assets	3,087	1,563
Total Current Assets	89,353	103,372
Property, Plant and Equipment		
Cost	188,915	184,137
Less accumulated depreciation and amortization	(119,956)	(118,082)
Total Property, Plant and Equipment, Net	68,959	66,055
Other Assets		
Goodwill	8,553	5,162
Trademarks and patents, net of accumulated amortization of \$439 and \$427 at January 31, 2014 and July 31, 2013, respectively	661	581
Debt issuance costs, net of accumulated amortization of \$488 and \$455 at January 31, 2014 and July 31 2013, respectively	277	309
Licensing agreements and non-compete agreements, net of accumulated amortization of \$1,986 and \$1,861 at January 31, 2014 and July 31, 2013, respectively	253	378
Customer list, net of accumulated amortization of \$255 at January 31, 2014	7,530	—
Deferred income taxes	2,740	2,164
Other	5,534	5,538
Total Other Assets	25,548	14,132
Total Assets	\$183,860	\$183,559

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

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

LIABILITIES & STOCKHOLDERS' EQUITY	January 31, 2014	July 31, 2013
Current Liabilities		
Current maturities of notes payable	\$3,500	\$3,500
Accounts payable	7,699	6,483
Dividends payable	1,242	1,236
Accrued expenses:		
Salaries, wages and commissions	4,674	9,087
Trade promotions and advertising	3,188	2,824
Freight	2,480	2,154
Other	6,344	6,163
Total Current Liabilities	29,127	31,447
Noncurrent Liabilities		
Notes payable	18,900	22,400
Deferred compensation	8,976	8,569
Pension and postretirement benefits	16,778	16,362
Other	2,021	1,843
Total Noncurrent Liabilities	46,675	49,174
Total Liabilities	75,802	80,621
Stockholders' Equity		
Common Stock, par value \$.10 per share, issued 7,894,460 shares at January 31, 2014 and 7,866,560 shares at July 31, 2013	789	787
Class B Stock, par value \$.10 per share, issued 2,399,668 shares at January 31, 2014 and 2,394,487 shares at July 31, 2013	240	239
Additional paid-in capital	32,446	31,317
Restricted unearned stock compensation	(2,277)	(1,824)
Retained earnings	137,422	132,750
Accumulated other comprehensive income:		
Unrealized gain on marketable securities	84	86
Pension and postretirement benefits	(5,495)	(5,608)
Cumulative translation adjustment	193	487
Total accumulated other comprehensive loss	(5,218)	(5,035)
Less Treasury Stock, at cost (2,915,893 Common and 324,741 Class B shares at January 31, 2014 and 2,914,567 Common and 324,741 Class B shares at July 31, 2013)	(55,344)	(55,296)
Total Stockholders' Equity	108,058	102,938
Total Liabilities & Stockholders' Equity	\$183,860	\$183,559

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

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

	For the Six Months Ended January 31,	
	2014	2013
Net Sales	\$ 132,851	\$ 122,539
Cost of Sales	(99,458) (89,039
Gross Profit	33,393	33,500
Selling, General and Administrative Expenses	(23,317) (23,654
Capacity Rationalization Charges	—	(62
Income from Operations	10,076	9,784
Other Income (Expense)		
Interest expense	(809) (927
Interest income	16	17
Other, net	140	214
Total Other Income (Expense), Net	(653) (696
Income Before Income Taxes	9,423	9,088
Income taxes	(2,255) (2,490
Net Income	7,168	6,598
Retained Earnings:		
Balance at beginning of period	132,750	122,901
Cash dividends declared and treasury stock issuances	(2,496) (3,502
Balance at end of period	\$ 137,422	\$ 125,997
Net Income Per Share		
Basic Common	\$ 1.09	\$ 1.02
Basic Class B	\$ 0.82	\$ 0.77
Diluted	\$ 1.01	\$ 0.94
Average Shares Outstanding		
Basic Common	4,967	4,887
Basic Class B	1,999	1,960
Diluted	6,991	6,904

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

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

	For the Six Months Ended January 31,	
	2014	2013
Net Income	\$7,168	\$6,598
Other Comprehensive Income (net of tax):		
Unrealized loss on marketable securities	(2) (2
Pension and postretirement benefits	113	300
Cumulative translation adjustment	(294) 23
Other Comprehensive (Loss) Income	(183) 321
Total Comprehensive Income	\$6,985	\$6,919

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

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

	For the Three Months Ended January 31,	
	2014	2013
Net Sales	\$69,305	\$61,122
Cost of Sales	(52,412)	(44,853)
Gross Profit	16,893	16,269
Selling, General and Administrative Expenses	(11,159)	(12,834)
Capacity Rationalization Charges	—	(50)
Income from Operations	5,734	3,385
Other Income (Expense)		
Interest expense	(385)	(446)
Interest income	6	8
Other, net	175	84
Total Other Income (Expense), Net	(204)	(354)
Income Before Income Taxes	5,530	3,031
Income taxes	(1,249)	(885)
Net Income	4,281	2,146
Net Income Per Share		
Basic Common	\$0.65	\$0.33
Basic Class B	\$0.49	\$0.25
Diluted	\$0.60	\$0.31
Average Shares Outstanding		
Basic Common	4,979	4,896
Basic Class B	2,005	1,976
Diluted	7,007	6,922

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

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

	For the Three Months Ended January 31,	
	2014	2013
Net Income	\$4,281	\$2,146
Other Comprehensive Income (net of tax):		
Unrealized gain (loss) on marketable securities	6	(5)
Pension and postretirement benefits	56	150
Cumulative translation adjustment	(227)	7
Other Comprehensive (Loss) Income	(165)	152
Total Comprehensive Income	\$4,116	\$2,298

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

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Six Months Ended	
	January 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$7,168	\$6,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,860	4,475
Amortization of investment net discount	(2)