OIL DRI CORP OF AMERICA
Form 10-Q
March 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended January 31, 2013
or	
o	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 x 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 x No 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. (Check one):
Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of January 31, 2013.

Common Stock – 4,918,843 Shares and Class B Stock – 2,069,746 Shares

CONTENTS

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including, but not limited to, those under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and those statements elsewhere in this report and other documents we file with the Securities and Exchange Commission ("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," "esti "may," "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, 2012. 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.

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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, 2013	July 31, 2012
Current Assets		
Cash and cash equivalents	$25,430	$27,093
Investment in short-term securities	10,388	9,163
Accounts receivable, less allowance of $635 and $626 at January 31, 2013 and July 31, 2012, respectively	31,004	30,225
Inventories	22,186	19,673
Deferred income taxes	2,611	2,611
Prepaid repairs expense	3,305	3,549
Prepaid expenses and other assets	2,253	2,888
Total Current Assets	97,177	95,202
Property, Plant and Equipment		
Cost	180,467	176,707
Less accumulated depreciation and amortization	(115,350)	(112,254)
Total Property, Plant and Equipment, Net	65,117	64,453
Other Assets		
Goodwill	5,162	5,162
Trademarks and patents, net of accumulated amortization of $414 and $409 at January 31, 2013 and July 31, 2012, respectively	591	576
Debt issuance costs, net of accumulated amortization of $417 and $380 at January 31, 2013 and July 31 2012, respectively	348	385
Licensing agreements and non-compete agreements, net of accumulated amortization of $1,736 and $1,611 at January 31, 2013 and July 31, 2012, respectively	503	627
Deferred income taxes	2,880	3,224
Other	4,640	4,638
Total Other Assets	14,124	14,612
Total Assets	$176,418	$174,267

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, 2013	July 31, 2012
Current Liabilities		
Current maturities of notes payable	$5,000	$3,800
Accounts payable	6,172	6,700
Dividends payable	—	1,154
Accrued expenses:		
Salaries, wages and commissions	6,423	6,201
Trade promotions and advertising	4,245	3,302
Freight	1,990	2,585
Other	5,565	5,380
Total Current Liabilities	29,395	29,122
Noncurrent Liabilities		
Notes payable	22,400	25,900
Deferred compensation	8,398	8,117
Pension and postretirement benefits	24,823	24,241
Other	1,561	1,579
Total Noncurrent Liabilities	57,182	59,837
Total Liabilities	86,577	88,959
Stockholders' Equity		
Common Stock, par value $.10 per share, issued 7,832,410 shares at January 31, 2013 and 7,786,241 shares at July 31, 2012	783	779
Class B Stock, par value $.10 per share, issued 2,394,487 shares at January 31, 2013 and 2,374,859 shares at July 31, 2012	240	237
Additional paid-in capital	30,691	29,759
Restricted unearned stock compensation	(1,969)	(2,214)
Retained earnings	125,997	122,901
Accumulated Other Comprehensive Income:		
Unrealized gain on marketable securities	71	72
Pension and postretirement benefits	(11,291)	(11,591)
Cumulative translation adjustment	595	573
Less Treasury Stock, at cost (2,913,567 Common and 324,741 Class B shares at January 31, 2013 and 2,911,564 Common and 324,741 Class B shares at July 31, 2012)	(55,276)	(55,208)
Total Stockholders' Equity	89,841	85,308
Total Liabilities & Stockholders' Equity	$176,418	$174,267

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 per share amounts)
(unaudited)

	For the Six Months Ended January 31, 2013	2012
Net Sales	$122,539	$119,785
Cost of Sales	(89,039)	(91,028)
Gross Profit	33,500	28,757
Selling, General and Administrative Expenses	(23,654)	(22,132)
Capacity Rationalization Charges	(62)	—
Income from Operations	9,784	6,625
Other Income (Expense)		
Interest expense	(927)	(1,028)
Interest income	17	14
Other, net	214	141
Total Other Income (Expense), Net	(696)	(873)
Income Before Income Taxes	9,088	5,752
Income taxes	(2,490)	(1,438)
Net Income	6,598	4,314
Retained Earnings		
Balance at beginning of period	122,901	121,388
Cash dividends declared and treasury stock issuances	(3,502)	(2,339)
Balance at end of period	$125,997	$123,363
Net Income Per Share		
Basic Common	$1.02	$0.65
Basic Class B	$0.77	$0.49
Diluted	$0.94	$0.60
Average Shares Outstanding		
Basic Common	4,887	5,119
Basic Class B	1,960	1,929
Diluted	6,904	7,114

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)
(unaudited)

	For the Six Months Ended January 31,	
	2013	2012
Net Income	$6,598	$4,314
Other Comprehensive Income (net of tax):		
Unrealized loss on marketable securities	(2)	(4)
Pension and postretirement benefits	300	117
Cumulative translation adjustment	23	(227)
Total Comprehensive Income	$6,919	$4,200

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

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

	For the Three Months Ended January 31, 2013	2012
Net Sales	$61,122	$60,203
Cost of Sales	(44,853)	(45,649)
Gross Profit	16,269	14,554
Selling, General and Administrative Expenses	(12,834)	(9,725)
Capacity Rationalization Charges	(50)	—
Income from Operations	3,385	4,829
Other Income (Expense)		
Interest expense	(446)	(504)
Interest income	8	6
Other, net	84	(52)
Total Other Income (Expense), Net	(354)	(550)
Income Before Income Taxes	3,031	4,279
Income taxes	(885)	(1,040)
Net Income	$2,146	$3,239
Net Income Per Share		
Basic Common	$0.33	$0.49
Basic Class B	$0.25	$0.36
Diluted	$0.31	$0.45
Average Shares Outstanding		
Basic Common	4,896	5,124
Basic Class B	1,976	1,938
Diluted	6,922	7,128

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,	
	2013	2012
Net Income	$2,146	$3,239
Other Comprehensive Income (net of tax):		
Unrealized loss on marketable securities	(5)	(3)
Pension and postretirement benefits	150	60
Cumulative translation adjustment	7	(34)
Total Comprehensive Income	$2,298	$3,262

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,	
CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
Net Income	$6,598	$4,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,475	4,634
Amortization of investment net (discount) premium	(3)	17
Non-cash stock compensation expense	413	340
Excess tax benefits for share-based payments	(199)	(45)
Deferred income taxes	184	65
Provision for bad debts	36	45
Loss on the sale of fixed assets	7	147
Capacity rationalization charges	62	—
(Increase) Decrease in:		
Accounts receivable	(812)	265
Inventories	(2,513)	(2,410)
Prepaid expenses	879	2,417
Other assets	24	(349)
Increase (Decrease) in:		
Accounts payable	(168)	(179)
Accrued expenses	690	(98)
Deferred compensation	281	116
Pension and postretirement benefits	882	952
Other liabilities	(25)	50
Total Adjustments	4,213	5,967
Net Cash Provided by Operating Activities	10,811	10,281
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(5,009)	(3,512)
Proceeds from sale of property, plant and equipment	34	23
Purchases of investment in short-term securities	(12,147)	(10,565)
Dispositions of investment in short-term securities	10,925	17,420
Net Cash (Used in) Provided by Investing Activities	(6,197)	3,366
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(2,300)	(2,100)
Dividends paid	(4,630)	(2,262)
Purchase of treasury stock	(175)	—
Proceeds from issuance of treasury stock	82	31
Proceeds from issuance of common stock	571	90
Excess tax benefits for share-based payments	199	45
Net Cash Used in Financing Activities	(6,253)	(4,196)
Effect of exchange rate changes on cash and cash equivalents	(24)	23

Net (Decrease) Increase in Cash and Cash Equivalents	(1,663)	9,474
Cash and Cash Equivalents, Beginning of Period	27,093	17,885
Cash and Cash Equivalents, End of Period	$25,430	$27,359

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

OIL-DRI CORPORATION OF AMERICA & SUBSIDIARIES
Notes To Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the consolidated financial statements and related notes for the year ended July 31, 2012 included in our Annual Report on Form 10-K filed with the SEC.

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

The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. Operating results for the three and six months ended January 31, 2013 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2013. Certain minor reclassifications have been made to the prior year data to conform to the current year presentation, which had no effect on net earnings or equity reported for any period.

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

Under the terms of our sales agreements with customers, we recognize revenue when risk of loss and title are transferred. An invoice is generated upon shipment that sets the fixed and determinable price. Promotional reserves are provided for sales incentives made directly to consumers and customers, and are netted against sales. Sales returns and allowances are not material.

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

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

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

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

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

2. CAPACITY RATIONALIZATION CHARGES

We recorded approximately $50,000 of expense during the second quarter of fiscal 2013 and $62,000 of expense during the first six months of fiscal 2013 related to 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, which we announced in fiscal 2012. These costs are shown as “Capacity Rationalization Charges” on the condensed Consolidated Statements of Income and Retained Earnings. Allocation of these expenses between operating segments is impracticable due to the shared nature of our production facilities. In addition, we expect to incur an additional estimated $2,000 of expense for employee relocation during the remainder of fiscal 2013.

Following is a rollforward of the reserve included in Other Accrued Expenses on the condensed Consolidated Balance Sheets as of January 31, 2013 (in thousands).

	Severance and other employee related costs
Reserve balance at July 31, 2012	$413
Charges against reserve	$(394)
Reserve balance at January 31, 2013	$19

3. NEW ACCOUNTING PRONOUNCEMENTS

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standard Board (“FASB”) issued guidance under Accounting Standard Codification (“ASC”) 220, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, that requires presentation by the respective line items of net income, either on the face of the statement where net income is presented or in the notes, information about significant amounts required under U.S. GAAP to be reclassified out of accumulated other comprehensive income in their entirety. For amounts not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. These presentation requirements will be effective for our quarter ending April 30, 2013 and will not have a significant impact on our consolidated financial statements.

In July 2012, the FASB issued guidance under ASC 350, Testing Indefinite-Lived Intangible Assets for Impairment, that provides the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the second, quantitative impairment test. If, based on the qualitative assessment of events or circumstances, an entity determines it is more likely than not that the indefinite-lived intangible asset's fair value is more than its carrying amount, then it is not necessary to perform the quantitative impairment test. However, if an entity concludes otherwise, then the quantitative impairment test must also be performed to identify and measure any potential impairment amount. We are currently evaluating the impact this guidance will have on our annual indefinite-lived intangible asset impairment testing for our fiscal year 2014 beginning August 1, 2013.

4. INVENTORIES

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

	January 31, 2013	July 31, 2012
Finished goods	$13,177	$11,313
Packaging	4,519	3,982
Other	4,490	4,378

	$22,186	$19,673

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a quarterly review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales groups to ensure that both historical issues and new market trends are considered. The allowance not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at January 31, 2013 and July 31, 2012 were $484,000 and $281,000, respectively.

5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

	Fair Value at January 31, 2013 (in thousands)		
	Total	Level 1	Level 2
Assets			
Cash equivalents	$15,879	$15,879	$—
Marketable equity securities	74	74	—
Cash surrender value of life insurance	4,296	—	4,296

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

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

Cash surrender value of life insurance is classified as Level 2. The value was determined by the underwriting insurance company's valuation models, which take into account the passage of time, mortality tables, interest rates, cash values for paid-up additions and dividend accumulations. The cash surrender value represents the guaranteed value we would receive upon surrender of these policies held on former key employees as of January 31, 2013. The cash surrender value of life insurance is included in other assets on the condensed Consolidated Balance Sheets.

The investment in short-term securities on the condensed Consolidated Balance Sheets includes U.S. Treasury securities, certificates of deposit and debt securities. We have the ability to hold our investment in short-term securities to maturity and intend to do so; therefore, these investments were reported at amortized cost on the condensed Consolidated Balance Sheets, which approximated fair value as of January 31, 2013. These balances are excluded from the above table.

Accounts receivable and accounts payable balances on the condensed Consolidated Balance Sheets approximate their fair values at January 31, 2013 due to the short maturity and nature of those balances; therefore, these balances are excluded from the above table.

The carrying values of notes payable approximated their fair values at January 31, 2013 and are excluded from the above table. The estimated fair value of notes payable, including current maturities, was $29,144,000 as of January 31, 2013. Our debt does not trade on a daily basis in an active market, therefore the fair value estimate is based on market observable borrowing rates currently available for debt with similar terms and average maturities and is classified as Level 2.

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

6. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

	PENSION PLAN (in thousands)			
	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2013	2012	2013	2012
Service cost	$417	$303	$876	$662
Interest cost	384	405	772	808
Expected return on plan assets	(373)	(369)	(755)	(740)
Amortization of:				
Prior service costs	4	4	7	7
Other actuarial loss	220	82	442	159
Net periodic benefit cost	$652	$425	$1,342	$896

	POSTRETIREMENT HEALTH PLAN (in thousands)			
	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2013	2012	2013	2012
Service cost	$34	$26	$68	$52
Interest cost	24	26	48	52
Amortization of:				
Net transition obligation	4	4	8	8
Other actuarial loss	13	7	26	15
Net periodic benefit cost	$75	$63	$150	$127

Our plan covering postretirement health benefits is an unfunded plan. We have funded the pension plan based upon actuarially determined contributions that take into account the normal cost and the minimum and maximum contribution requirements of various regulations. We contributed $427,000 to our pension plan during the second quarter ended January 31, 2013. We intend to make contributions to the pension plan during the current fiscal year approximately equal to the annual actuarial determined cost. We currently estimate this amount to be approximately $780,000 for the remainder of fiscal 2013. See Item 3. Quantitative and Qualitative Disclosures About Market Risk for a discussion of the potential impact of financial market fluctuations on pension plan assets and future funding contributions.

Assumptions used in the previous calculations were as follows:

	PENSION PLAN		POSTRETIREMENT HEALTH BENEFITS	
	For the Three and Six Months Ended January 31,			
	2013	2012	2013	2012
Discount rate for net periodic benefit cost	3.75%	5.25%	3.75%	5.25%
Rate of increase in compensation levels	3.50%	4.00%	—	—
Long-term expected rate of return on assets	7.50%	7.50%	—	—

The medical cost trend assumption for postretirement health benefits was 8.0%. The graded trend rate is expected to decrease to an ultimate rate of 5.0% in fiscal 2019.

7. OPERATING SEGMENTS

We have two operating segments: (1) Retail and Wholesale Products and (2) Business to Business Products. These segments are managed separately because each business has different customer characteristics. Net sales and operating income for each segment are provided below. Revenues by product line are not provided because it would be impracticable to do so. The accounting policies of the segments are the same as those described in Note 1 of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2012.

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

	Assets	
	January 31, 2013	July 31, 2012
	(in thousands)	
Business to Business Products	$45,471	$44,250
Retail and Wholesale Products	80,130	79,658
Unallocated Assets	50,817	50,359
Total Assets	$176,418	$174,267

	For the Six Months Ended January 31,			
	Net Sales		Income	
	2013	2012	2013	2012
	(in thousands)			
Business to Business Products	$43,497	$42,237	$14,624	$13,867
Retail and Wholesale Products	79,042	77,548	6,460	1,839
Total Sales	$122,539	$119,785		
Corporate Expenses			(11,238)	(9,081)
Capacity Rationalization Charges			(62)	—
Income from Operations			9,784	6,625
Total Other Expense, Net			(696)	(873)
Income before Income Taxes			9,088	5,752
Income Taxes			(2,490)	(1,438)
Net Income			$6,598	$4,314

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	For the Three Months Ended January 31,			
	Net Sales		Income	
	2013	2012	2013	2012
	(in thousands)			
Business to Business Products	$21,715	$21,303	$7,101	$6,427
Retail and Wholesale Products	39,407	38,900	1,936	3,058
Total Sales	$61,122	$60,203		
Corporate Expenses			(5,602)	(4,656)
Capacity Rationalization Charges			(50)	—
Income from Operations			3,385	4,829
Total Other Expense, Net			(354)	(550)
Income before Income Taxes			3,031	4,279
Income Taxes			(885)	(1,040)
Net Income			$2,146	$3,239

8. STOCK-BASED COMPENSATION

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

Our 1995 Long Term Incentive Plan ("1995 Plan") provided for grants of both incentive and non-qualified stock options and restricted stock. Stock options granted under the 1995 Plan generally vest 25% two years after the grant date and in each of the three following anniversaries of the grant date. All shares of stock issued upon option exercises under this plan were from authorized but unissued stock; all shares of restricted stock issued were from treasury stock. There are no shares available for future grants under this plan.

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

The Oil-Dri Corporation of America Outside Director Stock Plan (the "Directors' Plan") provides for grants of stock options to directors, who are considered employees. Stock options have been granted to our directors with a one year vesting period. There are no shares available for future grants under this plan. All shares of stock issued under the Directors' Plan were from treasury stock.

Stock Options

A summary of stock option transactions as of January 31, 2013 is shown below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(Years)	(in thousands)
Options outstanding, July 31, 2012	147	$11.89	2.2	$1,473
Exercised	(65)	$10.09		$991