

Section 1: 10-Q (10-Q)

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, 2020
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)
410 North Michigan Avenue, Suite 400
Chicago, Illinois
(Address of principal executive offices)

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.10 per share	ODC	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of January 31, 2020.

Common Stock – 5,415,926 Shares and Class B Stock – 2,196,170 Shares

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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including, but not limited to, those under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those statements elsewhere in this report and other documents that we file with the Securities and Exchange Commission (“SEC”), contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. Words such as “expect,” “outlook,” “forecast,” “would,” “could,” “should,” “project,” “intend,” “plan,” “continue,” “believe,” “seek,” “estimate,” “anticipate,” “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, but not limited to, those described in Item 1A, Risk Factors, herein and in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019. 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

Oil-Dri is a registered trademark of Oil-Dri Corporation of America.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

OIL-DRI CORPORATION OF AMERICA
Condensed Consolidated Balance Sheet
(in thousands, except share and per share amounts)

ASSETS	(unaudited)	
	January 31, 2020	July 31, 2019
Current Assets		
Cash and cash equivalents	\$ 21,569	\$ 21,862
Accounts receivable, less allowance of \$851 and \$644 at January 31, 2020 and July 31, 2019, respectively	35,699	35,459
Inventories	22,679	24,163
Prepaid repairs expense	4,679	4,708
Prepaid expenses and other assets	1,555	3,084
Total Current Assets	86,181	89,276
Property, Plant and Equipment		
Cost	253,927	249,834
Less accumulated depreciation and amortization	(164,096)	(159,036)
Total Property, Plant and Equipment, Net	89,831	90,798
Other Assets		
Goodwill	9,262	9,262
Other intangibles, net of accumulated amortization of \$398 and \$299 at January 31, 2020 and July 31, 2019, respectively	1,545	1,599
Customer list, net of accumulated amortization of \$6,592 and \$6,297 at January 31, 2020 and July 31, 2019, respectively	1,193	1,488
Deferred income taxes	7,445	7,755
Operating lease right-of-use assets	8,535	—
Other	5,087	5,049
Total Other Assets	33,067	25,153
Total Assets	\$ 209,079	\$ 205,227

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

OIL-DRI CORPORATION OF AMERICA
Condensed Consolidated Balance Sheet (continued)
(in thousands, except share and per share amounts)

	(unaudited)	
	January 31, 2020	July 31, 2019
LIABILITIES & STOCKHOLDERS' EQUITY		
<u>Current Liabilities</u>		
Current maturities of notes payable, net of unamortized debt issuance costs of \$17 at January 31, 2020	\$ 3,067	\$ 3,083
Accounts payable	9,565	8,092
Dividends payable	1,766	1,761
Operating lease liabilities	1,461	—
Accrued expenses:		
Salaries, wages and commissions	7,446	6,740
Trade promotions and advertising	1,387	1,588
Freight	1,862	2,635
Other	6,951	8,707
Total Current Liabilities	33,505	32,606
<u>Noncurrent Liabilities</u>		
Notes payable, net of unamortized debt issuance costs of \$31 at July 31, 2019	—	3,052
Deferred compensation	4,881	6,014
Pension and postretirement benefits	12,637	23,721
Long-term operating lease liabilities	8,602	—
Other	2,525	4,288
Total Noncurrent Liabilities	28,645	37,075
Total Liabilities	62,150	69,681
<u>Stockholders' Equity</u>		
Common Stock, par value \$.10 per share, issued 8,349,169 shares at January 31, 2020 and 8,284,199 shares at July 31, 2019	835	828
Class B Stock, par value \$.10 per share, issued 2,531,986 shares at January 31, 2020 and 2,576,479 shares at July 31, 2019	253	258
Additional paid-in capital	43,149	41,300
Retained earnings	169,590	164,756
Noncontrolling interest	(171)	(14)
Accumulated Other Comprehensive Loss:		
Pension and postretirement benefits	(9,343)	(14,891)
Cumulative translation adjustment	(246)	(148)
Total Accumulated Other Comprehensive Loss	(9,589)	(15,039)
Less Treasury Stock, at cost (2,933,243 Common and 335,816 Class B shares at January 31, 2020 and 2,926,547 Common and 324,741 Class B shares at July 31, 2019)	(57,138)	(56,543)
Total Stockholders' Equity	146,929	135,546
Total Liabilities & Stockholders' Equity	\$ 209,079	\$ 205,227

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

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

	(unaudited)	
	For the Six Months Ended January	
	31,	
	2020	2019
Net Sales	\$ 142,127	\$ 136,023
Cost of Sales	(103,234)	(104,609)
Gross Profit	38,893	31,414
Selling, General and Administrative Expenses	(28,899)	(27,584)
Income from Operations	9,994	3,830
Other Income (Expense)		
Interest expense	(206)	(293)
Interest income	190	96
Other, net	(143)	39
Total Other Expense, Net	(159)	(158)
Income Before Income Taxes	9,835	3,672
Income Tax Expense	(1,626)	(456)
Net Income	8,209	3,216
Net (Loss) Income Attributable to Noncontrolling Interest	(157)	23
Net Income Attributable to Oil-Dri	8,366	3,193
Net Income Per Share		
Basic Common	\$ 1.19	\$ 0.46
Basic Class B Common	\$ 0.89	\$ 0.34
Diluted Common	\$ 1.09	\$ 0.42
Average Shares Outstanding		
Basic Common	5,164	5,099
Basic Class B Common	2,045	2,069
Diluted Common	7,321	7,242
Dividends Declared Per Share		
Basic Common	\$ 0.5000	\$ 0.4800
Basic Class B Common	\$ 0.3750	\$ 0.3600

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

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

	(unaudited)	
	For the Six Months Ended January	
	31,	
	2020	2019
Net Income Attributable to Oil-Dri	\$ 8,366	\$ 3,193
Other Comprehensive Income:		
Pension and postretirement benefits (net of tax)	5,548	291
Cumulative translation adjustment	(98)	(36)
Other Comprehensive Income	5,450	255
Total Comprehensive Income	\$ 13,816	\$ 3,448

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

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

	(unaudited)	
	For the Three Months Ended January 31,	
	2020	2019
Net Sales	\$ 71,005	\$ 69,880
Cost of Sales	(52,047)	(54,476)
Gross Profit	18,958	15,404
Selling, General and Administrative Expenses	(13,085)	(12,577)
Income from Operations	5,873	2,827
Other Income (Expense)		
Interest expense	(103)	(142)
Interest income	92	47
Other, net	(104)	56
Total Other Expense, Net	(115)	(39)
Income Before Income Taxes	5,758	2,788
Income Tax Expense	(1,009)	(506)
Net Income	4,749	2,282
Net Loss Attributable to Noncontrolling Interest	(81)	(5)
Net Income Attributable to Oil-Dri	4,830	2,287
Net Income Per Share		
Basic Common	\$ 0.68	\$ 0.33
Basic Class B	\$ 0.51	\$ 0.25
Diluted Common	\$ 0.63	\$ 0.30
Average Shares Outstanding		
Basic Common	5,181	5,121
Basic Class B	2,039	2,068
Diluted Common	7,344	7,229
Dividends Declared Per Share		
Basic Common	\$ 0.2500	\$ 0.2400
Basic Class B	\$ 0.1875	\$ 0.1800

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

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

	(unaudited)	
	For the Three Months Ended January	
	31,	
	2020	2019
Net Income Attributable to Oil-Dri	\$ 4,830	\$ 2,287
Other Comprehensive Income:		
Pension and postretirement benefits (net of tax)	5,277	124
Cumulative translation adjustment	(54)	28
Other Comprehensive Income	5,223	152
Total Comprehensive Income	\$ 10,053	\$ 2,439

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

OIL-DRI CORPORATION OF AMERICA
Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)

For the Three Months Ended January 31

(unaudited)

	Number of Shares		Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Stockholders' Equity
	Common & Class B Stock	Treasury Stock							
Balance, October 31, 2018	10,705,328	(3,245,478)	\$ 1,071	\$ 39,186	\$ 158,185	\$ (56,154)	\$ (10,512)	\$ 11	\$ 131,787
Net Income (Loss)	—	—	—	—	2,287	—	—	(6)	2,281
Other Comprehensive Income	—	—	—	—	—	—	152	—	152
Dividends Declared	—	—	—	—	(1,684)	—	—	—	(1,684)
Purchases of Treasury Stock	—	—	—	—	—	—	—	—	—
Net issuance of stock under long-term incentive plans	107,600	(4,250)	10	315	—	(326)	—	—	(1)
Amortization of Restricted Stock	—	—	—	229	—	—	—	—	229
Balance, January 31, 2019	10,812,928	(3,249,728)	\$ 1,081	\$ 39,730	\$ 158,788	\$ (56,480)	\$ (10,360)	\$ 5	\$ 132,764
Balance, October 31, 2019	10,879,655	(3,268,057)	\$ 1,088	\$ 42,327	\$ 166,526	\$ (57,103)	\$ (14,812)	\$ (90)	\$ 137,936
Net Income (Loss)	—	—	—	—	4,830	—	—	(81)	4,749
Other Comprehensive Income	—	—	—	—	—	—	5,223	—	5,223
Dividends Declared	—	—	—	—	(1,766)	—	—	—	(1,766)
Purchases of Treasury Stock	—	(602)	—	—	—	(23)	—	—	(23)
Net issuance of stock under long-term incentive plans	1,500	(400)	—	12	—	(12)	—	—	—
Amortization of Restricted Stock	—	—	—	810	—	—	—	—	810
Balance, January 31, 2020	10,881,155	(3,269,059)	\$ 1,088	\$ 43,149	\$ 169,590	\$ (57,138)	\$ (9,589)	\$ (171)	\$ 146,929

For the Six Months Ended January 31

(unaudited)

	Number of Shares		Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Stockholders' Equity
	Common & Class B Stock	Treasury Stock							
Balance, July 31, 2018	10,555,828	(3,238,833)	\$ 1,056	\$ 38,473	\$ 158,935	\$ (55,946)	\$ (10,615)	\$ (18)	\$ 131,885
Net Income	—	—	—	—	3,193	—	—	23	3,216
Other Comprehensive Income	—	—	—	—	—	—	255	—	255
Dividends Declared	—	—	—	—	(3,340)	—	—	—	(3,340)
Purchases of Treasury Stock	—	(4,545)	—	—	—	(135)	—	—	(135)
Net issuance of stock under long-term incentive plans	257,100	(6,350)	25	373	—	(399)	—	—	(1)
Amortization of Restricted Stock	—	—	—	884	—	—	—	—	884
Balance, January 31, 2019	10,812,928	(3,249,728)	\$ 1,081	\$ 39,730	\$ 158,788	\$ (56,480)	\$ (10,360)	\$ 5	\$ 132,764
Balance, July 31, 2019	10,860,678	(3,251,288)	\$ 1,086	\$ 41,300	\$ 164,756	\$ (56,543)	\$ (15,039)	\$ (14)	\$ 135,546
Net Income (Loss)	—	—	—	—	8,366	—	—	(157)	8,209
Other Comprehensive Income	—	—	—	—	—	—	5,450	—	5,450
Dividends Declared	—	—	—	—	(3,532)	—	—	—	(3,532)
Purchases of Treasury Stock	—	(15,621)	—	—	—	(523)	—	—	(523)
Net issuance of stock under long-term incentive plans	20,477	(2,150)	2	70	—	(72)	—	—	—
Amortization of Restricted Stock	—	—	—	1,779	—	—	—	—	1,779
Balance, January 31, 2020	10,881,155	(3,269,059)	\$ 1,088	\$ 43,149	\$ 169,590	\$ (57,138)	\$ (9,589)	\$ (171)	\$ 146,929

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

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

	(unaudited)	
	For the Six Months Ended January 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 8,209	\$ 3,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,929	6,539
Amortization of investment net discount	—	(10)
Stock-based compensation	1,779	898
Deferred income taxes	312	106
Provision for bad debts and cash discounts	221	(168)
Loss on the sale of fixed assets	116	1
Curtailment gain on SERP Plan	(1,296)	—
(Increase) Decrease in assets:		
Accounts receivable	(434)	(4,529)
Inventories	1,508	(5,607)
Prepaid expenses	1,561	970
Other assets	731	(422)
Increase (Decrease) in liabilities:		
Accounts payable	2,661	2,295
Accrued expenses	(1,602)	(1,390)
Deferred compensation	163	(436)
Pension and postretirement benefits	(5,536)	859
Other liabilities	(1,052)	370
Total Adjustments	6,061	(524)
Net Cash Provided by Operating Activities	14,270	2,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,286)	(6,199)
Purchases of short-term investments	—	(3,948)
Dispositions of short-term investments	—	10,602
Net Cash (Used in) Provided by Investing Activities	(7,286)	455
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(3,083)	(3,083)
Dividends paid	(3,527)	(3,287)
Purchase of treasury stock	(523)	(135)
Net Cash Used in Financing Activities	(7,133)	(6,505)
Effect of exchange rate changes on Cash and Cash Equivalents	(144)	(24)
Net Decrease in Cash and Cash Equivalents	(293)	(3,382)
Cash and Cash Equivalents, Beginning of Period	21,862	12,757
Cash and Cash Equivalents, End of Period	\$ 21,569	\$ 9,375

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

	(unaudited)	
	For the Six Months Ended January	
	31,	
	2020	2019
Supplemental disclosure of non-cash investing and financing activities:		
Capital expenditures accrued, but not paid	\$ 628	\$ 416
Cash dividends declared and accrued, but not paid	\$ 1,766	\$ 1,680

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

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The financial statements and the related notes are condensed and should be read in conjunction with the Consolidated Financial Statements and related notes for the fiscal year ended July 31, 2019 included in our Annual Report on Form 10-K filed with the SEC.

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

The unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals and reclassifications which are, in the opinion of management, necessary for a fair presentation of the statements contained herein. In addition, certain prior year reclassifications were made to conform to the current year presentation. Operating results for the three and six months ended January 31, 2020 are not necessarily an indication of the results that may be expected for the fiscal year ending July 31, 2020.

Management Use of Estimates

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

Summary of Significant Accounting Policies

Our significant accounting policies, which are detailed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019 have not materially changed, except as described herein, including policies associated with the August 1, 2019 adoption of Accounting Standards Codification (“ASC”) 842, *Leases*. Changes to our accounting policies as a result of the ASC 842 adoption are discussed below and further information is also provided in Note 2 of the Notes to unaudited Condensed Consolidated Financial Statements. Following is a description of certain of our significant accounting policies.

Leases. ASC 842 provides that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset and, accordingly, a lease liability and a related right-of-use (“ROU”) asset is recognized at the commencement date on our consolidated balance sheet. As provided in ASC 842, we have elected not to apply these measurement and recognition requirements to short-term leases (i.e., leases with a term of 12 months or less). Short-term leases will not be recorded as ROU assets or lease liabilities on our consolidated balance sheet, and the related lease payments will be recognized in net earnings on a straight-line basis over the lease term. For leases other than short-term leases, the lease liability is equal to the present value of unpaid lease payments over the remaining lease term. The lease term may reflect options to extend or terminate the lease when it is reasonably certain that such options will be exercised. To determine the present value of the lease liability, we used an incremental borrowing rate, which is defined as the rate of interest we would have to pay to borrow (on a collateralized basis over a similar term) an amount equal to the lease payments in similar economic environments. The ROU asset is based on the corresponding lease liability adjusted for certain costs such as initial direct costs, prepaid lease payments and lease incentives received. Both operating and finance lease ROU assets are reviewed for impairment, consistent with other long-lived assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. After a ROU asset is impaired, any remaining balance of the ROU asset is amortized on a straight-line basis over the shorter of the remaining lease term or the estimated useful life. After the lease commencement date, we evaluate lease modifications, if any, that could result in a change in the accounting for leases.

Certain of our leases provide for variable lease payments that vary due to changes in facts and circumstances occurring after the commencement date, other than the passage of time. Variable lease payments that are dependent on an index or rate (e.g., Consumer

Price Index) are included in the initial measurement of the lease liability and the ROU asset. Variable lease payments that are not known at the commencement date and are determinable based on the performance or use of the underlying asset, are expensed as incurred. Our variable lease payments primarily include common area maintenance charges based on the percentage of the total square footage leased and the usage of assets, such as photocopiers.

Some of our contracts may contain lease components as well as non-lease components, such as an agreement to purchase services. As allowed under ASC 842, we have elected not to separate the lease components from non-lease components for all asset classes and we will not allocate the contract consideration to these components. This policy was applied to all existing leases upon adoption of ASC 842 and will be applied to new leases on an ongoing basis.

Revenue Recognition. We recognize revenue when performance obligations under the terms of the contracts with customers are satisfied. Our performance obligation generally consists of the promise to sell finished products to wholesalers, distributors and retailers or consumers and our obligations have an original duration of one year or less. Control of the finished products are transferred upon shipment to, or receipt at, customers' locations, as determined by the specific terms of the contract. We have completed our performance obligation when control is transferred and we recognize revenue accordingly.

We have an unconditional right to consideration under the payment terms specified in the contract upon completion of the performance obligation. We may require certain customers to provide payment in advance of product shipment. We recorded a liability for these advance payments of \$313,000 and \$259,000 as of January 31, 2020 and July 31, 2019, respectively. This liability is reported in Other Accrued Expenses on the unaudited Condensed Consolidated Balance Sheet. Revenue recognized during the six months ended January 31, 2020 that was included in the liability for advance payments at the beginning of the period was \$234,000.

We routinely commit to one-time or ongoing trade promotion programs directly with consumers, such as coupon programs, and with customers, such as volume discounts, cooperative marketing and other arrangements. We estimate and accrue the expected costs of these programs. These costs are considered variable consideration under ASC 606, *Revenue from Contracts with Customers*, and are netted against sales when revenue is recorded. The accruals are based on our best estimate of the amounts necessary to settle future and existing obligations on products sold as of the balance sheet date. To estimate these accruals, we rely on our historical experience of trade spending patterns and that of the industry, current trends and forecasted data.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") 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.

Trade Receivables. 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, consideration of customer credit risk and analysis of facts and circumstances about specific customer accounts. A customer account is determined to be uncollectible when it is probable that a loss will be incurred after we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment.

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

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

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

2. NEW ACCOUNTING PRONOUNCEMENTS AND REGULATIONS

Recently Adopted Pronouncements

On August 1, 2019 we adopted ASC 842, *Leases*, using the modified retrospective transition approach and, accordingly, we did not restate prior comparative period financial statements. As of the date of adoption, we elected the package of practical expedients that allowed us to forgo assessment under the ASC 842 guidance whether existing or expired contracts contained leases, the classification of expired or existing leases and the accounting for previously incurred initial direct costs. We also elected the practical expedient to forgo assessment under ASC 842 whether existing or expired land easements not previously accounted for under legacy leasing GAAP contain leases.

The adoption of ASC 842 on August 1, 2019 resulted in the recognition of additional ROU assets and lease liabilities related to operating leases of \$9,348,000 and \$10,910,000, respectively, on our unaudited Condensed Consolidated Balance Sheet. There was no material impact to any of our other unaudited consolidated financial statements.

Recently Issued Pronouncements

In December 2019, the FASB issued guidance under ASC 740, *Income Taxes*, which simplifies the accounting for income taxes. The guidance removes several specific exceptions to the general principles in ASC 740 and clarifies and makes amendments to improve consistent application of and simplify existing accounting for other areas in ASC 740. This guidance is effective for our first quarter of fiscal year 2022, with early adoption permitted. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

In June 2016, the FASB issued guidance under ASC 326, *Financial Instruments-Credit Losses*, which requires companies to utilize an impairment model for most financial assets measured at amortized cost and certain other financial instruments, which include trade and other receivables, loans and held-to-maturity debt securities, to record an allowance for credit risk based on expected losses rather than incurred losses. In addition, this new guidance changes the recognition method for credit losses on available-for-sale debt securities, which can occur as a result of market and credit risk, as well as additional disclosures. In general, this guidance will require modified retrospective adoption for all outstanding instruments that fall under this guidance. This guidance is effective for our first quarter of fiscal year 2021. We are currently evaluating the impact of the adoption of this requirement on our Consolidated Financial Statements.

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

3. INVENTORIES

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

	January 31, 2020	July 31, 2019
Finished goods	\$ 13,353	\$ 13,957
Packaging	5,122	5,681
Other	4,204	4,525
Total Inventories	<u>\$ 22,679</u>	<u>\$ 24,163</u>

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We performed a detailed review of our inventory items to determine if an obsolescence reserve adjustment was necessary. The review surveyed all of our operating facilities and sales groups to ensure that both historical issues and new market trends were considered. The obsolescence reserve not only considered specific items, but also took into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at January 31, 2020 and July 31, 2019 were \$1,362,000 and \$704,000, respectively. The higher obsolescence reserve is attributed to our focus on inventory management and enhanced data available from our enterprise resource planning (“ERP”) system.

4. FAIR VALUE MEASUREMENTS

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

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

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

Level 3: Unobservable inputs.

Cash equivalents are primarily money market mutual funds classified as Level 1. We had \$26,000 cash equivalents as of both January 31, 2020 and July 31, 2019, which are included in Cash and cash equivalents on the unaudited Condensed Consolidated Balance Sheet.

Balances of accounts receivable and accounts payable approximated their fair values at January 31, 2020 and July 31, 2019 due to the short maturity and nature of those balances.

Notes payable are reported at the face amount of future maturities. The estimated fair value of notes payable, including current maturities, was \$3,176,000 and \$6,357,000 as of January 31, 2020 and July 31, 2019, respectively, and are classified as Level 2. The fair value was estimated using the exit price notion of fair value.

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

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets, other than goodwill, include trademarks, patents, customer lists and product registrations. Intangible amortization expense was \$249,000 and \$209,000 in the second quarter of fiscal years 2020 and 2019, respectively. Intangible amortization expense was \$416,000 and \$419,000 in the first six months of fiscal years 2020 and 2019. Estimated intangible amortization for the remainder of fiscal year 2020 is \$370,000. Estimated intangible amortization for the next five fiscal years is as follows (in thousands):

2021	\$	556
2022	\$	406
2023	\$	202
2024	\$	67
2025	\$	47

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

We performed our annual goodwill impairment analysis in the fourth quarter of fiscal year 2019 and no impairment was identified. There have been no triggering events that would indicate a new impairment analysis is needed.

6. LEASES

We have operating leases primarily for real estate properties, including corporate headquarters, customer service and sales offices, manufacturing and packaging facilities, warehouses, and research and development facilities, as well as for rail tracks, railcars and office equipment. Certain of our leases for a shared warehouse and office facility, rail track and railcars have options to extend which we are reasonably certain we will exercise and, accordingly, have been considered in the lease term used to recognize our ROU assets and lease liabilities. Further information about our accounting policy for leases is included in Note 1 of the Notes to unaudited Condensed Consolidated Financial Statements.

We have no material finance leases, and variable costs for operating leases are immaterial for the second quarter of fiscal year 2020. Operating lease costs are included in Cost of Sales or SG&A expenses based on the nature of the lease. The following table summarizes total lease costs for our operating leases (in thousands):

	For the Three Months Ended January 31, 2020	For the Six Months Ended January 31, 2020
Operating Lease Cost		
Operating lease cost	\$ 517	\$ 1,034
Short-term operating lease cost	195	400

Supplemental cash flow information related to leases was as follows (in thousands):

	For the Three Months Ended January 31, 2020	For the Six Months Ended January 31, 2020
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 430	\$ 855

Operating lease ROU assets and operating lease liabilities are separately presented on the unaudited Condensed Consolidated Balance Sheet, excluding leases with an initial term of twelve months or less. Other supplemental balance sheet information related to leases was as follows:

	For the Six Months Ended January 31, 2020
Weighted-average remaining lease term - operating leases	10.8 years
Weighted-average discount rate - operating leases	4.01%

The following table summarizes scheduled minimum future lease payments due within twelve months for operating leases with terms longer than one year for which cash flows are fixed and determinable as of January 31, (in thousands):

2020	\$ 1,823
2021	1,512
2022	1,141
2023	812
2024	773
Thereafter	6,523
Total	12,584
Less: imputed interest	(2,521)
Net lease obligation	\$ 10,063

The following table summarizes scheduled minimum future lease payments due within twelve months for operating leases with terms longer than one year for which cash flows are fixed and determinable as of July 31, 2019 (in thousands):

2020	\$	2,255
2021		1,640
2022		1,513
2023		1,038
2024		899
Thereafter		7,422

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

Pension and Postretirement Health Benefits

The Oil-Dri Corporation of America Pension Plan (“Pension Plan”) is a defined benefit pension plan for eligible salaried and hourly employees. Pension benefits are based on a formula of years of credited service and levels of compensation or stated amounts for each year of credited service. On January 9, 2020, we amended the Pension Plan to freeze participation, all future benefit accruals and accrual of benefit service, including consideration of compensation increases, effective March 1, 2020. Consequently, the Pension Plan is closed to new participants and current participants will no longer earn additional benefits on or after March 1, 2020.

The amendment of the Pension Plan triggered a pension curtailment, which required a remeasurement of the Pension Plan's obligation. The remeasurement resulted in a decrease in the benefit obligation of approximately \$6,632,000, which has been recorded in Other Comprehensive Income, net of taxes of \$1,592,000.

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

	Pension Benefits (in thousands)			
	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2020	2019	2020	2019
Service cost	\$ 363	\$ 391	\$ 851	\$ 813
Interest cost	503	517	1,012	1,057
Expected return on plan assets	(716)	(703)	(1,414)	(1,405)
Amortization of:				
Prior service costs	—	1	—	1
Other actuarial loss	313	165	670	386
Net periodic benefit cost	\$ 463	\$ 371	\$ 1,119	\$ 852

	Postretirement Health Benefits (in thousands)			
	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2020	2019	2020	2019
Service cost	\$ 28	\$ 25	\$ 58	\$ 52
Interest cost	20	24	41	49
Amortization of:				
Prior service costs	(2)	(2)	(3)	(3)
Net periodic benefit cost	\$ 46	\$ 47	\$ 96	\$ 98

The non-service cost components of net periodic benefit cost are included in Other Income (Expense) in the line item Other, net on the unaudited Condensed Consolidated Statements of Income.

The Pension Plan is funded based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum contribution required and the maximum contribution allowed under applicable regulations. We were not required to make, but did make a \$5,000,000 voluntary contribution to the Pension Plan during the second quarter of fiscal year 2020. We have no minimum funding requirements for the remainder of fiscal year 2020 but we may consider making an additional voluntary contribution.

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

Assumptions used in the previous calculations were as follows:

	Pension Benefits		Postretirement Health Benefits	
	For the Three and Six Months Ended January 31,			
	2020	2019	2020	2019
Discount rate for net periodic benefit cost	3.35%	4.04%	2.93%	3.81%
Rate of increase in compensation levels	3.50%	3.50%	—	—
Long-term expected rate of return on assets	7.00%	7.00%	—	—

The medical cost trend assumption for postretirement health benefits was 7.35%. The graded trend rate is expected to decrease to an ultimate rate of 4.50% in fiscal year 2038.

Supplemental Executive Retirement Plan

The Oil-Dri Corporation of America Supplemental Executive Retirement Plan (“SERP”) provides certain retired participants in the Pension Plan with the amount of benefits that would have been provided under the Pension Plan but for: (1) the limitations on benefits imposed by Section 415 of the Internal Revenue Code (“Code”) and/or (2) the limitation on compensation for purposes of calculating benefits under the Pension Plan imposed by Section 401(a)(17) of the Code. The SERP liability is actuarially determined at the end of each fiscal year using assumptions similar to those used for the Pension Plan. The SERP is unfunded and benefits will be funded when payments are made.

On January 9, 2020, we amended the SERP to freeze participation and any excess benefit, supplemental benefit or additional benefit effective March 1, 2020. Consequently, the SERP is closed to new participants and current participants no longer earn additional benefits on or after March 1, 2020.

The amendment of the SERP triggered a pension curtailment which required a remeasurement of the SERP's obligation. The remeasurement resulted in a decrease in the SERP liability of approximately \$1,296,000, which has been recorded in SG&A in the second quarter of fiscal year 2020.

8. OPERATING SEGMENTS

We have two operating segments: (1) Business to Business Products Group and (2) Retail and Wholesale Products Group. These operating segments are managed separately and each segment's major customers have different characteristics. The Retail and Wholesale Products Group customers include: mass merchandisers; wholesale clubs; drugstore chains; pet specialty retail outlets; dollar stores; retail grocery stores; distributors of industrial cleanup and automotive products; environmental service companies; and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products. Our operating segments are also our reportable segments. The accounting policies of the segments are the same as those described in Note 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019.

Net sales for our principal products by segment are as follows (in thousands):

Product	Business to Business Products Group		Retail and Wholesale Products Group	
	For the Six Months Ended January 31,			
	2020	2019	2020	2019
Cat Litter	\$ 7,247	\$ 6,502	\$ 74,970	\$ 67,613
Industrial and Sports	—	—	15,012	15,429
Agricultural and Horticultural	10,296	12,698	—	—
Bleaching Clay and Fluids Purification	24,605	24,454	1,196	1,197
Animal Health and Nutrition	8,801	8,130	—	—
Net Sales	<u>\$ 50,949</u>	<u>\$ 51,784</u>	<u>\$ 91,178</u>	<u>\$ 84,239</u>

Product	Business to Business Products Group		Retail and Wholesale Products Group	
	For the Three Months Ended January 31,			
	2020	2019	2020	2019
Cat Litter	\$ 3,550	\$ 3,287	\$ 38,591	\$ 35,218
Industrial and Sports	—	—	7,412	7,652
Agricultural and Horticultural	4,577	6,646	—	—
Bleaching Clay and Fluids Purification	12,382	12,559	531	552
Animal Health and Nutrition	3,962	3,966	—	—
Net Sales	<u>\$ 24,471</u>	<u>\$ 26,458</u>	<u>\$ 46,534</u>	<u>\$ 43,422</u>

We do not rely on any segment asset allocations and we do not consider them meaningful because of the shared nature of our production facilities; however, we have estimated the segment asset allocations below for those assets for which we can reasonably determine. The unallocated asset category is the remainder of our total assets. We have refined the basis of allocation for certain of our assets as of January 31, 2020 and we have restated the allocation of assets as of July 31, 2019 presented below to enhance comparability. 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.

	Assets	
	January 31, 2020	July 31, 2019
	(in thousands)	
Business to Business Products Group	\$ 63,744	\$ 66,655
Retail and Wholesale Products Group	96,043	95,593
Unallocated Assets	49,292	42,979
Total Assets	<u>\$ 209,079</u>	<u>\$ 205,227</u>

Net sales and operating income for each segment are provided below. The corporate expenses line includes certain unallocated expenses, including primarily salaries, wages and benefits, purchased services, rent, utilities and depreciation and amortization associated with corporate functions such as research and development, information systems, finance, legal, human resources and customer service. Corporate expenses also include the estimated annual incentive plan bonus accrual.

	For the Six Months Ended January 31,			
	Net Sales		Income	
	2020	2019	2020	2019
	(in thousands)			
Business to Business Products Group	\$ 50,949	\$ 51,784	\$ 15,848	\$ 14,304
Retail and Wholesale Products Group	91,178	84,239	8,968	2,662
Net Sales	\$ 142,127	\$ 136,023		
Corporate Expenses			(14,822)	(13,136)
Income from Operations			9,994	3,830
Total Other Expense, Net			(159)	(158)
Income before Income Taxes			9,835	3,672
Income Tax Expense			(1,626)	(456)
Net Income			8,209	3,216
Net (Loss) Income Attributable to Noncontrolling Interest			(157)	23
Net Income Attributable to Oil-Dri			\$ 8,366	\$ 3,193

	For the Three Months Ended January 31,			
	Net Sales		Income	
	2020	2019	2020	2019
	(in thousands)			
Business to Business Products Group	\$ 24,471	\$ 26,458	\$ 7,552	\$ 7,272
Retail and Wholesale Products Group	46,534	43,422	5,608	2,653
Net Sales	\$ 71,005	\$ 69,880		
Corporate Expenses			(7,287)	(7,098)
Income from Operations			5,873	2,827
Total Other Expense, Net			(115)	(39)
Income before Income Taxes			5,758	2,788
Income Tax Expense			(1,009)	(506)
Net Income			4,749	2,282
Net Loss Attributable to Noncontrolling Interest			(81)	(5)
Net Income Attributable to Oil-Dri			\$ 4,830	\$ 2,287

9. STOCK-BASED COMPENSATION

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan, as amended (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 1,219,500.

Restricted Stock

All of our non-vested restricted stock as of January 31, 2020 was issued under the 2006 Plan with vesting periods generally between one and five years. We determined the fair value of restricted stock as of the grant date. We recognize the related compensation expense over the period from the date of grant to the date the shares vest.

There were 1,500 and 117,000 restricted shares of Common Stock granted during the second quarter of fiscal years 2020 and 2019, respectively. There were no restricted shares of Class B Stock granted during the second quarter of fiscal year 2020 and 7,000 restricted shares of Class B Stock granted during the second quarter of fiscal year 2019. Stock-based compensation expense related to non-vested restricted stock was \$810,000 and \$229,000 for the second quarter of fiscal years 2020 and 2019, respectively. Stock-based compensation expense related to non-vested restricted stock was \$1,779,000 and \$889,000 for the first six months of fiscal years 2020 and 2019, respectively.

A summary of restricted stock transactions is shown below:

	Restricted Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested restricted stock outstanding at July 31, 2019	414	\$ 33.09
Granted	21	\$ 33.51
Vested	(41)	\$ 32.34
Forfeitures	(2)	\$ 33.51
Non-vested restricted stock outstanding at January 31, 2020	392	\$ 33.19

10. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the changes in accumulated other comprehensive (loss) income by component as of January 31, 2020 (in thousands):

	Pension and Postretirement Health Benefits	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive (Loss) Income
Balance as of July 31, 2019	\$ (14,891)	\$ (148)	\$ (15,039)
Other comprehensive loss before reclassifications, net of tax	—	(98)	(98)
Amounts reclassified from accumulated other comprehensive income, net of tax	508 (a)	—	508
Curtailment on Pension Plan	\$ 5,040 (b)	\$ —	\$ 5,040
Net current-period other comprehensive income (loss), net of tax	5,548	(98)	5,450
Balance as of January 31, 2020	\$ (9,343)	\$ (246)	\$ (9,589)

(a) Amount is net of tax expense of \$160,138. Amount is included in the components of net periodic benefit cost for the pension and postretirement health plans. See Note 7 of the Notes to unaudited Condensed Consolidated Financial Statement-s for further information.

(b) Amount is net of tax expense of \$1,592,000. See Note 7 of the Notes to the unaudited Condensed Consolidated Financial Statements for further information.

11. RELATED PARTY TRANSACTIONS

One member of our Board of Directors (the “Board”), and our Lead Independent Director, retired from the role of President and Chief Executive Officer of a customer of ours in September 2019. That company was a customer of ours before the board member joined that company and before he became a member of our Board. Total net sales to that customer, including sales to subsidiaries of that customer, were \$49,000 and \$105,000 for the second quarter of fiscal years 2020 and 2019, respectively, and were \$160,000 and \$202,000 for the first six months of fiscal years 2020 and 2019, respectively. Outstanding accounts receivable from that customer, and its subsidiaries, were \$10,000 at both January 31, 2020 and July 31, 2019.

One member of our Board, and of the Compensation Committee of our Board, is the President and Chief Executive Officer as well as a director and shareholder of a law firm that regularly provides services to us. Total payments to that vendor for fees and

cost reimbursements were \$25,000 and \$51,000 for the second quarter of fiscal years 2020 and 2019, respectively, and were \$63,000 and \$97,000 for the first six months of fiscal years 2020 and 2019, respectively. There were no outstanding accounts payable to that vendor as of January 31, 2020 or July 31, 2019.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included herein and our Consolidated Financial Statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Forward-Looking Statements" and Item 1A, Risk Factors, of this quarterly report on Form 10-Q for the quarter ended January 31, 2020 and of our Annual Report on Form 10-K for the fiscal year ended July 31, 2019.

OVERVIEW

We develop, mine, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other clay-like sorbent materials. Our principal products include agricultural and horticultural chemical carriers, animal health and nutrition products, bleaching clay and fluid purification aids, cat litter, industrial and automotive floor absorbents and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end consumer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable operating segments based on the different characteristics of our two primary customer groups: Retail and Wholesale Products Group and Business to Business Products Group, as described in Note 8 of the Notes to unaudited Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JANUARY 31, 2020 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2019

CONSOLIDATED RESULTS

Consolidated net sales for the six months ended January 31, 2020 were \$142,127,000, a 4% increase compared to net sales of \$136,023,000 for the six months ended January 31, 2019. Net sales increased for our Retail and Wholesale Products Group but decreased for our Business to Business Products Group. Segment results are discussed further below.

Consolidated gross profit for the first six months of fiscal year 2020 was \$38,893,000, or 27% of net sales, compared to \$31,414,000, or 23% of net sales, for the first six months of fiscal year 2019. Lower freight and natural gas costs drove the increase in gross profit. Freight costs declined approximately 21% per manufactured ton for the first six months of fiscal year 2020 compared to the same period in fiscal year 2019 as the result of lower transportation rates from improved truck availability. In addition, costs were higher in the first half of the prior fiscal year due to other one-time events, including a greater number of product transfers between our plants and warehouses to support customer service during the implementation of our new ERP system on August 1, 2018 and disruptions due to Hurricane Michael. Our overall freight costs also vary between periods depending on the mix of products sold and the geographic distribution of our customers. The cost of natural gas used to operate kilns that dry our clay was approximately 29% lower per manufactured ton in the first six months of fiscal year 2020 compared to the first six months of fiscal year 2019. Non-fuel manufacturing costs per manufactured ton were flat compared to the first six months of the prior fiscal year. In contrast, packaging costs per manufactured ton for the first six months of fiscal year 2020 were slightly higher compared to the first six months of fiscal year 2019, due in part to the mix of products produced. In addition, many of our contracts for packaging purchases are subject to periodic price adjustments, which trail changes in underlying commodity prices.

Total SG&A expenses were \$28,899,000 for the first six months of fiscal year 2020, a 5% increase compared to \$27,584,000 for the first six months of fiscal year 2019. The discussion of the segments' operating incomes below describes the changes in SG&A expenses that were allocated to the operating segments. The remaining unallocated corporate expenses included a higher estimated annual incentive bonus accrual, which was based on performance targets established for each fiscal year. The increased bonus expense was partially offset by a curtailment gain reported upon the freeze of our SERP in the second quarter of fiscal year 2020 (see Note 7 of the Notes to the unaudited Condensed Consolidated Financial Statements). In addition, higher SG&A expenses were reported in the first half of fiscal year 2019 for consulting costs related to our ERP system implemented in the first quarter of the prior fiscal year and legal costs for legal proceedings resolved in the third quarter of the prior fiscal year.

Consolidated net income before taxes for the first six months of fiscal year 2020 was \$9,835,000, a 168% increase from net income before taxes of \$3,672,000 for the first six months of fiscal year 2019. Results for the first six months of fiscal year 2020 were driven by the factors discussed above, including higher sales and lower freight and natural gas costs, which more than offset the increase in SG&A expenses.

The tax expense for the first six months of fiscal year 2020 was \$1,626,000 (an effective tax rate of 16.5%) compared to \$456,000 for the first six months of fiscal year 2019 (an effective tax rate of 12.4%). An estimated annual effective tax rate was used in both periods to determine the provision for income taxes, which is based on expected annual taxable income and the assessment of various tax deductions, including depletion. The lower tax rate in fiscal year 2019 primarily relates to the discrete benefit recorded relating to the completion of a federal income tax return examination in the first quarter of that year.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the first six months of fiscal year 2020 were \$50,949,000, a decrease of \$835,000, or 2%, from net sales of \$51,784,000 for the first six months of fiscal year 2019. Net sales of our agricultural and horticultural chemical carrier products decreased approximately 19% for the first six months of fiscal year 2020 compared to the same period in fiscal year 2019. Sales of traditional granules declined due primarily to the loss of a customer, which was partially offset by increased sales to an existing customer. These lower sales were significantly offset by higher sales of other products in the Business to Business Group, including an increase of approximately 11% compared to the first six months of the prior fiscal year for sales of our co-packaged coarse cat litter. Net sales of our animal health and nutrition products also increased approximately 8% compared to the first six months of the prior year. Sales growth occurred for our feed additives primarily in Africa, Mexico and Asia, excluding China. See “Foreign Operations” below for a discussion of sales in China, which were impacted by the spread of the African swine fever in the prior year and the recent novel coronavirus (COVID-19) outbreak (“the coronavirus”). Net sales of our fluids purification products increased approximately 1% compared to the first six months of the prior fiscal year as higher sales to edible oil producers offset lower sales that resulted from a biodiesel processing customer closing operations.

SG&A expenses for the Business to Business Products Group were approximately 7% higher for the first six months of fiscal year 2020 compared to the same period of the prior year, including higher costs for product development and support, increased compensation-related expenses and additional costs to establish our subsidiary in Indonesia.

The Business to Business Products Group’s operating income for the first six months of fiscal year 2020 was \$15,848,000, an increase of \$1,544,000, or 11%, from operating income of \$14,304,000 for the first six months of fiscal year 2019. The improved operating income was driven primarily by the lower freight and natural gas costs discussed in “Consolidated Results” above.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the first six months of fiscal year 2020 were \$91,178,000, an increase of \$6,939,000, or 8%, from net sales of \$84,239,000 for the first six months of fiscal year 2019. Sales of cat litter drove the sales increase. Total cat litter net sales were approximately 11% higher compared to the first six months of the prior fiscal year, with increased sales for both private label and branded litters. Sales of private label scoopable litter increased to existing customers, some of whom had expanded their selection of our products during the prior fiscal year. Higher sales of private label coarse litter included incremental sales to customers who added these products in the second half of the prior fiscal year. Branded coarse litter and litter box liners sales were also higher compared to the first half of the prior fiscal year. Cat litter sales by our subsidiary in Canada further contributed to the sales increase, as discussed in “Foreign Operations” below. Also included in the Retail and Wholesale Products Group’s results were slightly lower sales for our industrial and automotive products compared to the first six months of fiscal year 2019.

SG&A expenses for the Retail and Wholesale Products Group were approximately 7% lower in the first six months of fiscal year 2020 compared to the first six months of fiscal year 2019. Lower advertising expense in the first six months of fiscal year 2020 contributed to the reduction in costs compared to the same period in the prior year; however, we expect spending for advertising in the remainder of fiscal 2020 to result in a higher expense for the full year of fiscal 2020 compared to fiscal year 2019. In addition, non-recurring expenses were incurred in the first half of fiscal year 2019 for customer compliance fees related to shipping and data communication incurred in connection with the implementation of the ERP system.

The Retail and Wholesale Products Group’s operating income for the first six months of fiscal year 2020 was \$8,968,000, an increase of \$6,306,000 from operating income of \$2,662,000 for the first six months of fiscal year 2019. The improved operating income was driven by the higher sales and lower SG&A described above, and by lower freight and natural gas costs discussed in “Consolidated Results”.

FOREIGN OPERATIONS

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are reported in the Retail and Wholesale Products Group, and our subsidiaries in China, Mexico and Indonesia, which are reported in the Business to Business Products Group. Net sales by our foreign subsidiaries during the first six months of fiscal year 2020 were \$7,154,000, an increase of \$672,000, or 10%, compared to net sales of \$6,482,000 during the first six months of fiscal year 2019. This increase was attributable primarily to new cat litter business for our Canada subsidiary. Sales of our animal health products by our foreign operations grew to a lesser extent, as higher sales for our subsidiaries in Mexico and Indonesia were mostly offset by lower sales for our subsidiary in China. Sales of animal health products to pork producers in China have not fully recovered since the spread of African swine fever in fiscal year 2019. In addition, our Chinese subsidiary's business operations have been impacted in the second quarter of fiscal year 2020 by the recent outbreak of the coronavirus. Chinese government restrictions to control the spread of the coronavirus disrupted our sales office, limited travel by our salesforce and delayed product shipments. Net sales by our foreign subsidiaries represented 5% of our consolidated net sales during the first six months of both fiscal years 2020 and 2019.

Our foreign subsidiaries reported a net loss of \$169,000 for the first six months of fiscal year 2020, compared to net income of \$315,000 for the first six months of fiscal year 2019. The lower sales described above for our subsidiary in China and additional costs to establish operations in Indonesia drove the net loss.

Identifiable assets of our foreign subsidiaries as of January 31, 2020 were \$10,158,000, compared to \$9,643,000 as of January 31, 2019. The increase was attributed primarily to the addition of our subsidiary in Indonesia and new right-of-use lease assets recorded upon the implementation of ASC 842, *Leases*.

THREE MONTHS ENDED JANUARY 31, 2020 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2019

CONSOLIDATED RESULTS

Consolidated net sales for the three months ended January 31, 2020 were \$71,005,000, a 2% increase compared to net sales of \$69,880,000 for the three months ended January 31, 2019. Net sales increased for our Retail and Wholesale Products Group, but decreased for our Business to Business Products Group. Segment results are discussed further below.

Consolidated gross profit for the three months ended January 31, 2020 was \$18,958,000, or 27% of net sales, compared to \$15,404,000, or 22% of net sales, for the second quarter of fiscal year 2019. Lower freight and natural gas costs drove the increase in gross profit. Freight costs declined approximately 21% for the second quarter of fiscal year 2020 per manufactured ton as the result of lower transportation rates from improved truck availability. Our overall freight costs also vary between periods depending on the mix of products sold and the geographic distribution of our customers. The cost of natural gas used to operate kilns that dry our clay was approximately 36% lower per manufactured ton for the second quarter of fiscal year 2020 compared to the same period of fiscal year 2019. Non-fuel manufacturing costs per ton produced were slightly lower compared to the second quarter in the prior fiscal year. In contrast, packaging costs per manufactured ton were slightly higher compared to the second quarter of the prior fiscal year, driven primarily by the mix of products produced. In addition, many of our contracts for packaging purchases are subject to periodic price adjustments, which trail changes in underlying commodity prices.

Total SG&A expenses were \$13,085,000 for the second quarter of fiscal year 2020, a 4% increase compared to \$12,577,000 for the second quarter of fiscal year 2019. The discussion below describes the SG&A expenses allocated to the operating segments. The remaining unallocated corporate expenses included a higher estimated annual incentive bonus accrual, which was based on performance targets established for each fiscal year. The increased bonus expense was partially offset by a curtailment gain reported upon the freeze of our SERP in the second quarter of fiscal year 2020 (see Note 7 of the Notes to the unaudited Condensed Consolidated Financial Statements). In addition, lower SG&A expenses were reported in the second quarter of fiscal year 2020 for consulting costs related to our ERP system and costs for legal proceedings resolved in the third quarter of the prior fiscal year.

Consolidated net income before taxes for the second quarter of fiscal year 2020 was \$5,758,000, compared to net income before taxes of \$2,788,000 for the second quarter of fiscal year 2019. Results for the second quarter of fiscal year 2020 were driven by the factors described above, including higher sales and lower freight and natural gas costs, which more than offset the increase in SG&A expenses.

Tax expense was \$1,009,000 for the second quarter of fiscal year 2020, compared to \$506,000 for the second quarter of fiscal year 2019, which resulted in an effective tax rate of 18% for the second quarters of both fiscal years. We used an estimated annual

effective tax rate in determining our quarterly provision for income taxes, which is based on expected annual taxable income and the assessment of various tax deductions, including depletion.

BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for the second quarter of fiscal year 2020 were \$24,471,000, a decrease of \$1,987,000, or 8%, from net sales of \$26,458,000 for the second quarter of fiscal year 2019. Net sales of our agricultural and horticultural chemical carrier products decreased 31%, due primarily to the loss of a customer for our traditional granules. Net sales of our fluids purification products decreased approximately 1% for the second quarter of fiscal year 2020. Lower sales due to a plant closing of a biodiesel processing customer was partially offset by higher sales to edible oil producers. Net sales of our animal health and nutrition products were essentially flat as sales growth for our feed additives in Mexico and Asia, excluding China, mostly offset lower sales in China. See “Foreign Operations” below for a discussion of sales in China, which were impacted by the spread of the African swine fever in the prior year and the recent outbreak of the coronavirus. Net sales of our co-packaged coarse cat litter for the second quarter were approximately 8% higher compared to the second quarter of the prior year.

SG&A expenses for the Business to Business Products Group were approximately 11% higher compared to the second quarter of fiscal year 2019, including higher costs for product development and support and compensation-related expenses.

The Business to Business Products Group’s operating income for the second quarter of fiscal year 2020 was \$7,552,000, an increase of \$280,000, or 4%, from operating income of \$7,272,000 in the second quarter of fiscal year 2019. The improved operating income was driven by the lower freight and natural gas costs discussed in “Consolidated Results” above.

RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for the second quarter of fiscal year 2020 were \$46,534,000, an increase of \$3,112,000, or 7%, from net sales of \$43,422,000 for the second quarter of fiscal year 2019. Total cat litter net sales were 10% higher compared to the second quarter of fiscal year 2019, driven by increased sales of both private label and branded litters. Sales of private label scoopable litter increased to existing customers, some of whom had expanded their selection of our products during the prior fiscal year. Higher sales of private label coarse litter included incremental sales to customers who added these products in the second half of the prior fiscal year. Branded coarse litter and litter box liners sales were also higher compared to the second quarter of the prior year. Cat litter sales by our subsidiary in Canada also contributed to the sales increase, as discussed in “Foreign Operations” below. Also included in the Retail and Wholesale Products Group’s results were slightly lower sales for our industrial and automotive products compared to the second quarter of fiscal year 2019.

SG&A expenses for the Retail and Wholesale Products Group were slightly higher to support the increased sales compared to the second quarter of fiscal year 2019.

For the second quarter of fiscal year 2020, the Retail and Wholesale Products Group reported operating income of \$5,608,000, an increase of \$2,955,000, compared to operating income of \$2,653,000 for the second quarter of fiscal year 2019. The improved operating income was driven by the higher sales described above, and by lower freight and natural gas costs discussed above in “Consolidated Results”.

FOREIGN OPERATIONS

Foreign operations included our subsidiaries in Canada and the United Kingdom, which are reported in the Retail and Wholesale Products Group, and our subsidiaries in China, Mexico and Indonesia, which are reported in the Business to Business Products Group. Net sales by our foreign subsidiaries during the second quarter of fiscal year 2020 were \$3,505,000, a 15% increase compared to net sales of \$3,039,000 in the second quarter of fiscal year 2019. This increase was attributable primarily to new cat litter business and improved sales of industrial absorbents for our Canada subsidiary. Sales of our animal health products by our foreign operations grew to a lesser extent, as higher sales for our Mexico and Indonesia subsidiaries were mostly offset by lower sales for our subsidiary in China. Sales of these products to pork producers in China have not fully recovered since the spread of African swine fever in fiscal year 2019. In addition, business operations of our Chinese subsidiary have been impacted in the second quarter of fiscal year 2020 by the recent outbreak of the coronavirus. Chinese government restrictions to control the spread of the coronavirus disrupted our sales office, limited travel by our salesforce and delayed product shipments. Our foreign subsidiaries' net sales represented approximately 5% and 4% of consolidated net sales during the second quarters of fiscal years 2020 and 2019, respectively.

Our foreign subsidiaries reported a net loss attributable to Oil-Dri of \$101,000 for the second quarter of fiscal year 2020 compared to net income of \$79,000 for the second quarter of fiscal year 2019. The lower sales described above for our China subsidiary,

higher material costs for our subsidiary in the United Kingdom and additional costs to establish operations in Indonesia drove the net loss.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements include: funding working capital needs; purchasing and upgrading equipment, facilities, information systems and real estate; supporting new product development; investing in infrastructure; repurchasing stock; paying dividends; making pension contributions; and, from time to time, business acquisitions. During the first six months of fiscal year 2020, we principally used cash generated from operations to fund these requirements.

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

	For the Six Months Ended January 31,	
	2020	2019
Net cash provided by operating activities	\$ 14,270	\$ 2,692
Net cash (used in) provided by investing activities	(7,286)	455
Net cash used in financing activities	(7,133)	(6,505)
Effect of exchange rate changes on cash and cash equivalents	(144)	(24)
Net decrease in cash and cash equivalents	<u>\$ (293)</u>	<u>\$ (3,382)</u>

Net cash provided by operating activities

In addition to net income, as adjusted for depreciation and amortization and other non-cash operating activities, the primary sources and uses of operating cash flows for the first six months of fiscal years 2020 and 2019 were as follows:

Accounts receivable, less allowance for doubtful accounts, increased \$213,000 in the first six months of fiscal year 2020 compared to an increase of \$4,697,000 in the first six months of fiscal year 2019. Higher sales in the second quarter of fiscal year 2020 compared to the second quarter of 2019 drove the increase in accounts receivable as of January 31, 2020. The accounts receivable balance at the end of the second quarter of fiscal year 2019 was significantly higher due to delays in sending invoices to some customers upon implementation of the new ERP system on August 1, 2018. The variation in accounts receivable balances also reflected differences in the level and timing of collections as well as the payment terms provided to various customers.

Inventory decreased \$1,508,000 in the first six months of fiscal year 2020 compared to an increase of \$5,607,000 in the first six months of fiscal year 2019. Packaging and finished goods decreased as of January 31, 2020 due to higher production and efforts to better manage our safety stock levels. In addition, our inventory obsolescence reserve increased during the first six months of fiscal year 2020 which is attributable to our focus on inventory management and enhanced data available from our new ERP system. Previously, inventory had increased significantly during the first six months of fiscal year 2019 due to production interruptions and increased safety stock for anticipated disruptions during the new ERP system implementation.

Prepaid expenses decreased \$1,561,000 in the first six months of fiscal year 2020 compared to a decrease of \$970,000 in the first six months of fiscal year 2019. Lower prepaid advertising costs drove the decrease in the first six months of fiscal year 2020. Lower prepaid taxes was the primary reason for lower prepaid expenses in the first six months of fiscal year 2019. Prepaid expenses also fluctuated in both periods due to the timing of prepayment of insurance premium renewals.

Other assets decreased \$731,000 in the first six months of fiscal year 2020 compared to an increase of \$422,000 in the first six months of fiscal year 2019. The decrease in fiscal year 2020 related to amortization of our operating lease right-of-use lease assets while the increase in fiscal year 2019 related to additional costs to establish operations in Indonesia.

Accounts payable, including income taxes payable, increased \$2,661,000 in the first six months of fiscal year 2020 compared to an increase of \$2,295,000 in the first six months of fiscal year 2019. Higher accrued income taxes due to higher net income drove the increase in the first half of fiscal year 2020. Accounts payable increased in the first half of fiscal year 2019 as we managed our cash flow due to issues related to the ERP system implementation. Trade and freight payables also varied in both periods due to the timing of payments, fluctuations in the cost of goods and services we purchased, production volume levels and vendor payment terms.

Accrued expenses decreased \$1,602,000 in the first six months of fiscal year 2020 compared to a decrease of \$1,390,000 in the first six months of fiscal year 2019. The payout of the prior fiscal year's discretionary incentive bonus reduced accrued salaries

in both fiscal years. Accrued freight also decreased in the first six months of fiscal year 2020, but increased in the first six months of fiscal year 2019 due to cash flow management as described above. Accrued plant expenses also fluctuated due to timing of payments, changes in the cost of goods and services we purchased, production volume levels and vendor payment terms.

Pension and postretirement benefits decreased \$5,536,000 in the first six months of fiscal year 2020 compared to an increase in the first six months of fiscal year 2019 of \$859,000. See Note 7 of the Notes to the unaudited Condensed Consolidated Financial Statements for explanation of the decrease in fiscal year 2020 upon curtailment of our Pension Plan. The increase in fiscal year 2019 is due to normal increases in benefit obligation due to additional service.

Other liabilities decreased \$1,052,000 in the first six months of fiscal year 2020 compared to an increase of \$370,000 in the first six months of fiscal year 2019. The decrease in fiscal year 2020 is due to a reclassification of the deferred lease liability to operating lease liabilities. The increase in fiscal year 2019 was due to a new deferred lease liability.

Net cash (used in) provided by investing activities

Cash used in investing activities was \$7,286,000 in the first six months of fiscal year 2020 compared to cash provided by investing activities of \$455,000 in the first six months of fiscal year 2019. Cash used for capital expenditures was higher for the first quarter of fiscal year 2020 than fiscal year 2019. Net dispositions of investment securities provided cash in the first half of fiscal year 2019; however, no short-term investments were held in fiscal year 2020 due to the low returns available on these investments.

Net cash used in financing activities

Cash used in financing activities of \$7,133,000 in the first six months of fiscal year 2020 was higher than cash used in financing activities of \$6,505,000 in the first six months of fiscal year 2019, primarily due to increased purchases of treasury stock and a higher dividend payout.

Other

Total cash and investment balances held by our foreign subsidiaries of \$2,709,000 as of January 31, 2020 were slightly higher than the January 31, 2019 balances of \$2,123,000. See further discussion in “Foreign Operations” above.

On January 31, 2019, we signed a fifth amendment to our credit agreement with BMO Harris Bank N.A. (“BMO Harris”), which expires on January 31, 2024. The agreement provides for a \$45,000,000 unsecured revolving credit agreement and a maximum of \$10,000,000 for letters of credit. The agreement terms also state that we may select a variable interest rate based on either the BMO Harris prime rate or a LIBOR-based rate, plus a margin that varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. As of January 31, 2020, the variable rates would have been 5.00% for the BMO Harris prime-based rate or 3.00% for the three-month LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of January 31, 2020 and 2019, we were in compliance with the covenants. There were no borrowings during the first six months of either fiscal year 2019 or 2020.

As of January 31, 2020, we had remaining authority to repurchase 1,041,371 shares of Common Stock and 288,925 shares of Class B Stock under a repurchase plan approved by our Board of Directors (the “Board”). Repurchases may be made on the open market (pursuant to Rule 10b5-1 plans or otherwise) or in negotiated transactions. The timing and number of shares repurchased will be determined by our management pursuant to the repurchase plan approved by our Board.

We believe that cash flow from operations, availability under our revolving credit facility, current cash and investment balances and our ability to obtain other financing, if necessary, will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities, deferred compensation payouts, dividend payments and debt service obligations for at least the next 12 months. We expect both capital expenditures and advertising expense in fiscal year 2020 to be greater than in fiscal year 2019. We do not believe that these increased expenditures will dramatically impact our cash position; however our cash requirements are subject to change as business conditions warrant and opportunities arise.

We continually evaluate our liquidity position and anticipated cash needs, as well as the financing options available to obtain additional cash reserves. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments, to contribute to our pension plan and to remain in compliance with all financial covenants under debt agreements, including, but not limited to, the current credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing

economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of financial condition and results of operations is based on our unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP for interim financial information and in compliance with instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of these financial statements requires the use of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and related disclosures. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements. Estimates and assumptions are revised periodically. Actual results could differ from these estimates. See the information concerning our critical accounting policies included under “Management’s Discussion of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

The Company has implemented, and is continuing to add new functionality to, a new ERP system designed to upgrade our technology and improve our financial and operational information. While the Company believes that this new system and related changes to internal controls will ultimately strengthen its internal control over financial reporting, there are inherent risks in implementing a new ERP system. The Company has appropriately considered these changes in its design of and testing for effectiveness of internal controls over financial reporting and concluded, as part of the evaluation described in the above paragraph, that the implementation and ongoing enhancement of the new ERP in these circumstances has not materially changed the effectiveness of its internal control over financial reporting.

There were no changes, other than those described herein, in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended January 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II – OTHER INFORMATION

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

ITEM 1A. RISK FACTORS

The Company's operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended July 31, 2019. Except as set forth below, there have been no material changes to our risk factors since the Company's Annual Report on Form 10-K for the year ended July 31, 2019.

Our business could be adversely affected by a widespread threat to public health.

In December 2019, a novel strain of the coronavirus was reported in China that has subsequently spread outside of China. In response to the coronavirus outbreak, the Chinese government has placed restrictions on travel and mandated business closures. Such restrictions and closures have disrupted our sales office in China, limited travel by our salesforce and delayed product shipments. Although the impact of such disruptions and delays has not had a material impact on our results of operations, there is significant uncertainty relating to the outbreak of coronavirus as well as the potential effects of such outbreak on our business. Related disruptions, inside or outside of China, to our operations, or the operations of our suppliers or customers, may impact our operations and results. Given the uncertainties related to the outbreak, including its duration and severity, we cannot reasonably estimate the scope of its impact on our employees, operations, suppliers, or customers, or the full extent to which the coronavirus could affect the global economy and our results.

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

During the three months ended January 31, 2020, we did not sell any securities which were not registered under the Securities Act of 1933. The following charts summarize our repurchases (and remaining authority to repurchase) shares of our Common Stock during this period. There were no repurchases of Class B Stock during this period 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 Exhibit 4.1 to our Annual Report on Form 10-K for the fiscal year ended July 31, 2019 filed with the SEC.

ISSUER PURCHASES OF EQUITY SECURITIES

	(a)	(b)	(c)	(d)
For the Three Months Ended January 31, 2020	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 ¹
Common Stock				
November 1, 2019 to November 30, 2019	602	\$37.22	—	1,041,371
December 1, 2019 to December 31, 2019	—	\$—	—	1,041,371
January 1, 2020 to January 31, 2020	—	\$—	—	1,041,371

¹ Our Board authorized the repurchase of 250,000 shares of Common Stock on March 11, 2011, an additional 250,000 shares on June 14, 2012 and an additional 750,000 shares on March 11, 2019. Our Board also authorized the repurchase of 300,000 shares of Class B Stock on March 21, 2018. These authorizations do not have a stated expiration date. The share numbers in this column indicate the number of shares of each class of stock that may yet be repurchased under these authorizations. Repurchases may be made on the open market (pursuant to Rule 10b5-1 plans or otherwise) or in negotiated transactions. The timing and number of shares repurchased will be determined by our management.

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 6. EXHIBITS

Exhibit No.	Description	SEC Document Reference
10.1	First Amendment, effective as of March 1, 2020 to Supplemental Executive Retirement Plan dated April 1, 2003.*	Filed herewith.
11	Statement re: Computation of Earnings per Share.	Filed herewith.
31	Certifications pursuant to Rule 13a-14(a).	Filed herewith.
32	Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
95	Mine Safety Disclosures	Filed herewith.
101.INS	XBRL Taxonomy Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith.

* Management contract or compensatory plan or arrangement.

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

SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA
(Registrant)

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

BY /s/ Susan M. Kreh
Susan M. Kreh
Chief Financial Officer

Dated: March 5, 2020

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Section 2: EX-10.1 (FIRST AMENDMENT TO SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN)

Exhibit 10.1:

FIRST AMENDMENT TO THE
OIL-DRI CORPORATION OF AMERICA
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WHEREAS, Oil-Dri Corporation of America (the “Company”) maintains the Oil-Dri Corporation of America Supplemental Executive Retirement Plan (the “Plan”);

WHEREAS, Section 5.1 of the Plan provides that the Company may amend the Plan at any time;

WHEREAS, the Company deems it appropriate to amend the Plan to freeze participation and all future benefit accruals under the Plan effective March 1, 2020; and

WHEREAS, the Board of Directors of the Company has previously approved freezing the Plan.

NOW, THEREFORE, the Company amends the Plan, effective March 1, 2020, as follows:

1. Capitalized terms not defined herein shall have the meaning as defined under the Plan.
2. Article 2 is amended by adding a new Section 2.2 as follows:

“2.4 Participation Freeze. Notwithstanding any provision of the Plan, participation in the Plan is frozen effective March 1, 2020, such that no Retirement Plan participant shall become a Participant on or after March 1, 2020.”

3. Article 3 is amended by adding new Section 3.5 as follows:

“3.5 Plan Freeze. Notwithstanding any provision of the Plan, the Plan is frozen effective March 1, 2020, such that no Participant shall accrue any Excess Benefit, Supplemental Benefit or additional benefit for any purpose on and after March 1, 2020.”

[signature page to follow]

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by the signature of a duly authorized officer as of this 9th day of January 2020 effective as provided herein.

COMPANY:

OIL-DRI CORPORATION OF AMERICA

ATTEST

By: /s/ Daniel S. Jaffee

By: /s/ Laura G. Scheland

Its: CEO

Its: Vice President and General Counsel

Date: January 9, 2020

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Section 3: EX-11 (COMPUTATION OF EARNINGS PER SHARE)

Exhibit 11:

OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES
Computation of Earnings Per Share
(in thousands, except per share amounts)

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2020	2019	2020	2019
Net income available to stockholders	\$ 4,830	\$ 2,287	\$ 8,366	\$ 3,193
Less: Distributed and undistributed earnings allocated to non-vested restricted stock	(240)	(92)	(421)	(133)
Earnings available to common shareholders	\$ 4,590	\$ 2,195	\$ 7,945	\$ 3,060
Shares Calculation				
Average shares outstanding - Basic Common	5,181	5,121	5,164	5,099
Average shares outstanding - Basic Class B Common	2,039	2,068	2,045	2,069
Potential Common Stock relating to stock options and non-vested restricted stock	124	40	112	74
Average shares outstanding - Assuming dilution	7,344	7,229	7,321	7,242
Net Income Per Share: Basic Common	\$ 0.68	\$ 0.33	\$ 1.19	\$ 0.46
Net Income Per Share: Basic Class B Common	\$ 0.51	\$ 0.25	\$ 0.89	\$ 0.34
Net Income Per Share: Diluted Common	\$ 0.63	\$ 0.30	\$ 1.09	\$ 0.42

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Section 4: EX-31 (CERTIFICATIONS PURSUANT TO RULE 13A-14(A))

UNDER THE SECURITIES EXCHANGE ACT)

Exhibit 31:

CERTIFICATIONS PURSUANT TO RULE 13A -14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
Certification of Principal Executive Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Daniel S. Jaffee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oil-Dri Corporation of America (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 5, 2020

By: /s/ Daniel S. Jaffee

Daniel S. Jaffee

Chairman, President and Chief Executive Officer

**Certification of a Principal Financial Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)**

I, Susan M. Kreh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Oil-Dri Corporation of America (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 5, 2020
By: /s/ Susan M. Kreh
Susan M. Kreh
Chief Financial Officer

THE SARBANES-OXLEY ACT OF 2002)

Exhibit 32:

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO THE SARBANES-OXLEY ACT OF 2002 CERTIFICATION

Certification

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Oil-Dri Corporation of America (the “Company”) hereby certifies that to the best of my knowledge the Company’s Quarterly Report on Form 10-Q for the quarter ended January 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 5, 2020

/s/ Daniel S. Jaffee

Name: Daniel S. Jaffee

Title: Chairman, President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Oil-Dri Corporation of America (the “Company”) hereby certifies that to the best of my knowledge the Company’s Quarterly Report on Form 10-Q for the quarter ended January 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 5, 2020

/s/ Susan M. Kreh

Name: Susan M. Kreh

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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Section 6: EX-95 (MINE SAFETY DISCLOSURE)

Exhibit 95

MINE SAFETY DISCLOSURES

Under section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K, each operator of a coal or other mine is required to include certain mine safety information in its periodic reports filed with the Securities and Exchange Commission. The table below includes this mine safety information for each mine facility owned and operated by Oil-Dri Corporation of America, or its subsidiaries, for the quarter ended January 31, 2020. Due to timing and other factors, our data may not agree with the mine data retrieval system maintained by

the Mine Safety and Health Administration (“MSHA”). The columns in the table represent the total number of, and the proposed dollar assessment for, violations, citations and orders issued by MSHA during the period upon periodic inspection of our mine facilities in accordance with the referenced sections of the Federal Mine Safety and Health Act of 1977, as amended (the “Mine Act”), described as follows:

Section 104 Significant and Substantial Violations: Total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard.

Section 104(b) Orders: Total number of orders issued due to a failure to totally abate, within the time period prescribed by MSHA, a violation previously cited under section 104, which results in the issuance of an order requiring the mine operator to immediately withdraw all persons from the mine.

Section 104(d) Citations and Orders: Total number of citations and orders issued for unwarrantable failure of the mine operator to comply with mandatory health and safety standards. The violation could significantly and substantially contribute to the cause and effect of a safety and health hazard, but the conditions do not cause imminent danger.

Section 110(b)(2) Flagrant Violations: Total number of flagrant violations defined as a reckless or repeated failure to make reasonable efforts to eliminate a known violation of a mandatory health or safety standard that substantially and proximately caused, or reasonably could have been expected to cause, death or serious bodily injury.

Section 107(a) Imminent Danger Orders: Total number of orders issued when an imminent danger is identified which requires all persons to be withdrawn from area(s) in the mine until the imminent danger and the conditions that caused it cease to exist.

Total Dollar Value of Proposed MSHA Assessments: Each issuance of a citation or order by MSHA results in the assessment of a monetary penalty. The total dollar value presented includes any contested penalties.

Legal Actions Pending, Initiated or Resolved: Total number of cases pending legal action before the Federal Mine Safety and Health Review Commission as of the last day of the reporting period or the number of such cases initiated or resolved during the reporting period.

Mine location	Section 104 “Significant and Substantial” Violations (#)	Section 104(b) Orders (#)	Section 104 (d) Citations and Orders (#)	Section 110 (b)(2)Flagrant Violations (#)	Section 107 (a) Imminent Danger Orders (#)	Total Dollar Value of Proposed MSHA Assessments (\$)	Legal Actions		
							Pending as of Last Day of Period (#)	Initiated During Period (#)	Resolved During Period (#)
Ochlocknee, Georgia	—	—	—	—	—	—	—	—	—
Ripley, Mississippi	—	—	—	—	—	—	—	—	—
Mounds, Illinois	2	—	—	—	—	1,030	—	—	—
Blue Mountain, Mississippi	—	—	—	—	—	—	—	—	—
Taft, California	—	—	—	—	—	—	—	—	—

We had no mining-related fatalities at any of our facilities during the three months ended January 31, 2020. During this period we also received no written notices from MSHA under section 104(e) of the Mine Act of (i) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards; or (ii) the potential to have such a pattern. All legal actions pending and initiated during the period were contests of proposed penalties.