

Oil-Dri Corp of America  
Form 10-K  
October 12, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2018

OR

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_

Commission File Number 001-12622

OIL-DRI CORPORATION OF AMERICA

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

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

(312) 321-1515

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

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

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

None

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

Yes o No ý

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

Yes o No ý

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

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

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 ☐ Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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 ☒

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of January 31, 2018 was \$193,369,000.

Number of shares of each class of Oil-Dri's capital stock outstanding as of September 28, 2018:

Common Stock – 5,172,007 shares

Class B Stock – 2,269,238 shares

Class A Common Stock – 0 shares

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of Oil-Dri's Proxy Statement for its 2018 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission ("SEC") not later than November 28, 2018 (120 days after the end of Oil-Dri's fiscal year ended July 31, 2018), are incorporated into Part III of this Annual Report on Form 10-K, as

indicated herein.

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FORWARD-LOOKING STATEMENTS

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

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

TRADEMARK NOTICE

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

## PART I

### ITEM 1 – BUSINESS

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

#### GENERAL BUSINESS DEVELOPMENTS

Consolidated net income was \$8,240,000, or \$1.11 per diluted share, for the fiscal year 2018, a 24% decrease from net income of \$10,792,000, or \$1.47 per diluted share, for fiscal year 2017. Net income in fiscal year 2018 was significantly impacted by a \$3,996,000 increase in tax expense to record the impact of the Tax Cuts and Job Act (the “2017 Tax Act”) on deferred income tax assets, which effectively reduced diluted net income per share by \$0.54 per share. Net sales were up about 1% in fiscal year 2018 compared to fiscal year 2017; however, income from operations declined due to higher cost of sales. Lower selling, general and administrative expenses partially offset the increased cost of sales. Higher freight, packaging and non-fuel manufacturing costs drove the increased cost of sales, while lower advertising costs reduced selling, general and administrative expenses.

Our Consolidated Balance Sheets as of July 31, 2018 and our Consolidated Statements of Cash Flows for fiscal year 2018 reflected the results of routine operating activities and significant non-recurring investments in the business. Total cash, cash equivalents and short-term investments decreased \$12,790,000 from fiscal year-end 2017. As in prior years, we spent cash for capital, dividends and debt payments. We also spent funds during the year for an enterprise resource planning system implementation and related infrastructure improvements. In addition, during fiscal year 2018 we made an \$11,500,000 voluntary contribution to our defined benefit pension plan in excess of the minimum amount required. This contribution also drove the \$13,255,000 decrease in the noncurrent liability for our pension and postretirement benefits.

On June 28, 2018, the SEC adopted amendments that raise the thresholds in the definition of a “smaller reporting company” (“SRC”), thereby expanding the number of smaller companies eligible to comply with scaled disclosure requirements in several Regulation S-K and Regulation S-X items. Under the new SRC definition, a company with less than \$250 million of public float as of the last business day of its second fiscal quarter qualifies as an SRC and may take advantage of the scaled disclosures. Oil-Dri met this qualification of an SRC as of January 31, 2018; therefore, this Annual Report on Form 10-K for fiscal year 2018 reflects some of the scaled disclosure requirements.

#### PRINCIPAL PRODUCTS

Oil-Dri is a leader in developing, manufacturing and/or marketing sorbent products. Our sorbent products are principally produced from hydrated aluminosilicate minerals, primarily consisting of calcium bentonite, attapulgite and diatomaceous shale, which we refer to collectively as our “clay” or our “minerals.” Our sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of our absorbent clay products are Cat’s Pride and Jonny Cat branded premium cat litter, as well as other private label cat litters. Additional examples are our Oil-Dri branded floor absorbents, Amlan branded animal health and nutrition solutions for livestock, and Agsorb and Verge agricultural chemical carriers. Adsorbent products attract impurities in liquids, such as metals and surfactants, and form low-level chemical bonds. Examples of our adsorbent products are Pure-Flo, Perform and Select bleaching clay products, which act as a filtration media for edible oils, fats and tallows. Also, our Ultra-Clear product serves as a purification aid for petroleum-based oils and by-products. We also sell some



nonclay-based products, such as our Oil-Dri synthetic sorbents used for industrial cleanup. Our principal products are described in more detail below.

#### Agricultural and Horticultural Products

We produce a wide range of granules and powders used to enhance agricultural and horticultural products. Our mineral-based absorbent products serve as chemical carriers, drying agents, and growing media. Our brands include: Agsorb, an agricultural and horticultural chemical carrier and drying agent; Verge, an engineered granule chemical carrier; Flo-Fre, a highly absorbent microgranule flowability aid; and Terra-Green, a growing media supplement.

Agsorb and Verge carriers are used in products that are alternatives to chemical sprays. The clay granules absorb active ingredients and are then delivered directly into, or on top of, the ground providing a more precise application than chemical sprays.

Verge carriers are spherical, uniform-sized granules with very low dust. Agsorb drying agent is blended into fertilizer-pesticide blends applied to absorb moisture and improve flowability. Agsorb is also used as a flowability aid for fertilizers and chemicals in the lawn and garden market. Flo-Fre microgranules are used by grain processors and other large handlers of bulk products to soak up excess moisture, which prevents caking. We employ technical sales people to market these products in the United States.

#### Animal Health and Nutrition Products

We produce, or use contract processors to produce, Amlan brand name and private label products that manage the health and improve productivity of species in livestock industries. For example, our products provide a number of solutions to health challenges of swine, poultry and dairy cattle. Our Calibrin and ConditionAde products are used in animal feed to help animals defend against a broad spectrum of biotoxins. Our Varium product promotes intestinal health in poultry. Our MD-09 moisture manager product is another feed additive for the reduction of wet droppings in poultry. In addition, our Pel-Unite and Pel-Unite Plus products are specialized animal feed pellet binders.

Our animal health and nutrition products are sold primarily through a network of distributors to livestock producers, feed mill operators, nutritionists and veterinarians in the United States, Latin America, Africa, the Middle East and Asia. The sales force for our subsidiary located in Shenzhen, China also sells these products, as further described in Foreign Operations below.

#### Bleaching Clay and Purification Aid Products

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

#### Cat Litter Products

We produce two types of mineral-based cat litter products, scoopable and traditional coarse non-clumping litters, both of which have absorbent and odor controlling characteristics. Scoopable litters have the additional characteristic of clumping when exposed to moisture, allowing the consumer to selectively dispose of the used portion of the litter. Scoopable litter products are further differentiated between lightweight and heavyweight. Lightweight scoopable litters offer superior performance with the added convenience of being lighter to carry and pour.

Branded products. Our scoopable and non-clumping litters are sold under our Cat's Pride and Jonny Cat brand names. Our Cat's Pride Fresh & Light litters created the lightweight segment of the scoopable litter market. In addition, we offer our non-clumping litter in a pre-packaged, disposable tray under the Cat's Pride KatKit and Jonny Cat brands. Moreover, we offer litter box liners under the Cat's Pride and Jonny Cat product lines. These products are sold through independent food brokers and by our sales force to major grocery, drug, dollar store, mass-merchandise and pet outlets, as well as through e-commerce.

Private label products. We produce private label scoopable and non-clumping cat litters. Our lightweight scoopable litters lead our private label cat litter offerings.

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

#### Industrial and Automotive Products

We manufacture and/or sell products made from clay, polypropylene and recycled cotton materials that absorb oil, acid, paint, ink, water and other liquids. These products have industrial, automotive and home applications. Our clay-based sorbent products, such as Oil-Dri branded and private label floor absorbents, are used for floor maintenance in industrial applications to provide a non-slip and non-flammable surface for workers. These floor absorbents are also used in automotive repair facilities,

car dealerships and other industrial applications, as well as for home use in garages and driveways. Our Oil-Dri branded polypropylene-based and cotton-based products are sold in various forms, such as pads, rolls, socks, booms and spill kits.

Industrial and automotive sorbent products are sold through distribution networks that includes industrial, auto parts, safety, sanitary supply, chemical and paper distributors. These products are also sold through environmental service companies, mass-merchandisers, catalogs and through e-commerce.

#### Sports Products

We manufacture and sell both branded and private label sports products. Pro's Choice Sports Field Products are used on baseball, softball, football and soccer fields. Pro's Choice soil conditioners are used in field construction or as top dressing to improve drainage, suppress dust and improve field performance. Pro Mound packing clay is used to construct pitcher's mounds, catcher's stations and batter's boxes. Rapid Dry drying agent is used to wick away excess water from the infield. Sports products are used at all levels of play, including professional, college and high school and on municipal fields. These products are sold through a network of distributors specializing in sports turf products.

#### BUSINESS SEGMENTS

We have two reportable operating segments for financial reporting derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group. The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet specialty retail outlets, dollar stores, retail grocery stores, direct customers through e-commerce, distributors of industrial cleanup and automotive products, environmental service companies and sports field product users. The Business to Business Products Group customers include: processors and refiners of edible oils, petroleum-based oils and biodiesel fuel; manufacturers of animal feed and agricultural chemicals; distributors of animal health and nutrition products; and marketers of consumer products. Certain financial information on both segments is contained in Note 2 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

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

#### FOREIGN OPERATIONS

Our foreign operations are located in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and China, Switzerland and Mexico, which are included in the Business to Business Products Group.

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

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

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

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

In May 2018, we purchased a 52% ownership interest in a distributor in Mexico. This distributor sells, among other products, our animal health and nutrition products. This subsidiary does not meet the definition of a significant subsidiary for purposes of our fiscal year 2018 financial statements.

Our foreign operations are subject to the normal risks of doing business overseas, such as currency fluctuations, restrictions

on the transfer of funds and import/export duties. Our operating results have not historically been materially impacted by these foreign currency fluctuations. Certain financial information about our foreign operations is contained in Note 2 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

## CUSTOMERS

Sales to Wal-Mart Stores, Inc. ("Walmart") and its affiliates accounted for approximately 18% and 20% of our total net sales for fiscal years 2018 and 2017, respectively. Walmart is a customer in our Retail and Wholesale Products Group. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales; however, sales to Clorox (a customer in our Business to Business Products Group) and its affiliates accounted for approximately 5% and 6% of total net sales for fiscal year 2018 and 2017, respectively. The degree of margin contribution of our significant customers in the Business to Business Products Group varies, with certain customers having a greater effect on our operating results. The loss of any customer other than those described in this paragraph would not be expected to have a material adverse effect on our business.

## COMPETITION

Product performance, price, brand recognition, customer service, technical support, and distribution resources are the principal methods of competition in our markets and competition historically has been very vigorous. Advertising, promotion, merchandising and packaging also have a significant impact on retail consumer purchasing decisions, which primarily affects our Retail and Wholesale Products Group. Most of the principal competitors for our Retail and Wholesale Products Group have substantially greater financial resources or market presence than we do and have established brands. These competitors may be able to spend more aggressively on advertising and promotional activities, introduce competing products more quickly and respond more effectively to changing business and economic conditions than us.

We have five principal competitors in our Retail and Wholesale Products Group, including one which is also our customer. The overall cat litter market has been relatively stable in recent years. The overwhelming majority of all cat litter is mineral based, including both scoopable and coarse non-clumping litters. Cat litters based on alternative strata such as paper, various agricultural waste products and silica gels have niche positions. Scoopable products have a majority of the cat litter market share followed by coarse non-clumping litters. The growing market share for scoopable cat litter has primarily offset the declining share for coarse non-clumping products.

There is significant competition to attract cat litter consumers across multi-outlet channels, including grocery, mass-merchandise, dollar, pet and drug stores, as well as through e-commerce. Competition for the scoopable litter market has been particularly intense with new product offerings and increased advertising and promotions by our competitors and by us. We provide our customers with product innovation, a nation-wide distribution network and strong customer service. Our exceptional sales and research and development teams give us a further advantage over smaller and regional manufacturers.

We have six principal competitors in our Business to Business Products Group. Our bleaching clay and fluid purification products are sold in a highly cost competitive global marketplace. Performance is a primary competitive factor for these products. The animal health portion of this segment also operates in a global marketplace with price and performance competition from multi-national and local competitors. Competition for our crop protection products is primarily based on price, but competitor differentiation also exists in the ability to meet customer product specifications and enhancements in engineered granule technologies.

## PATENTS

U.S. patents are currently granted for a term of 20 years from the date the patent application is filed. We have obtained or applied for patents for certain of our processes and products sold to customers in both the Retail and Wholesale Products Group and the Business to Business Products Group. Our patents are highly important to our business and we vigorously protect them from apparent infringement, although no single patent is considered material to the business as a whole. See Item 3 “Legal Proceedings” for more information about specific legal matters related to our patents.

#### BACKLOG; SEASONALITY

As of July 31, 2018 and 2017, the value of our backlog of orders were approximately \$10,338,000 and \$9,817,000, respectively. This value was determined by the number of tons on backlog order and the net selling prices. All backlog orders are expected to be filled within the next 12 months. We consider our business, taken as a whole, to be moderately seasonal; however, business activities of certain customers (such as agricultural chemical manufacturers) are subject to such seasonal factors as crop acreage planted, product formulation cycles and weather conditions.

## EFFECTS OF INFLATION

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

## RESERVES

We mine our clay on leased or owned land near our manufacturing facilities in Mississippi, Georgia, Illinois and California; we also have reserves in Nevada, Oregon and Tennessee. We estimate that our proven mineral reserves as of July 31, 2018 were approximately 102,381,000 tons in aggregate and our probable reserves were approximately 173,829,000 tons in aggregate, for a total of 276,210,000 tons of mineral reserves. Based on our rate of consumption during fiscal year 2018, and without regard to any of our reserves in Nevada, Oregon and Tennessee, we consider our proven reserves adequate to supply our needs for over 40 years. Although we consider these reserves to be extremely valuable to our business, only a small portion of the reserves, those which were acquired in acquisitions, was reflected at cost on our balance sheet.

It is our policy to attempt to add to reserves in most years, but not necessarily in every year, an amount at least equal to the amount of reserves consumed in that year. We have a program of exploration for additional reserves and, although reserves have been acquired, we cannot assure that additional reserves will continue to become available. Our use of these reserves, and our ability to explore for additional reserves, are subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. During fiscal year 2018, we utilized these reserves to produce substantially all of the sorbent products that we sold.

Proven reserves are those reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established. Probable reserves are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. We use geologists and mineral specialists who estimate and evaluate existing and potential reserves in terms of quality, quantity and availability.

## MINING OPERATIONS

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

The following schedule summarizes the net book value of land and other plant and equipment for each of our manufacturing facilities as of July 31, 2018 (in thousands):

Plant and



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	Land & Mineral Rights	Equipment
Ochlocknee, Georgia	\$ 8,822	\$ 28,792
Ripley, Mississippi	\$ 1,979	\$ 12,010
Mounds, Illinois	\$ 1,637	\$ 2,426
Blue Mountain, Mississippi	\$ 908	\$ 10,341
Taft, California	\$ 1,506	\$ 3,988

## EMPLOYEES

During fiscal year 2018, we employed approximately 775 persons, 42 of whom were employed by our foreign subsidiaries. We believe our corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 52 of our employees in the U.S. and approximately 18 of our employees in Canada are represented by labor unions, with whom we have entered into separate collective bargaining agreements. We consider our employee relations to be satisfactory.

## ENVIRONMENTAL COMPLIANCE

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

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

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

## ENERGY

We primarily used natural gas in the processing kilns to dry our clay products during fiscal year 2018. See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” below for more information about commodity risk with respect to our energy use.

## RESEARCH AND DEVELOPMENT

At our research and development center in Vernon Hills, Illinois, we develop new products and applications and improve existing products. The facility includes a pilot plant that simulates the production processes of our customers and our manufacturing plants. In fiscal year 2018, we added a microbiology lab dedicated to development of our animal health products. Our staff (and various consultants they engage from time to time) have experience in disciplines such as biology, microbiology, chemistry, physics, mathematics, geological and earth science, material science, geochemistry, physical catalysis, animal nutrition, animal science, oncological nutrition and transitional medicine. In the past several years, our research efforts have resulted in a number of new sorbent products and processes. The facility produces prototype samples and tests new products for customer trial and evaluation. No significant research and development was customer sponsored, and all research and development costs are expensed in the period in which incurred. See Note 1 of the Notes to the Consolidated Financial Statements for further information about research and development expenses.

## AVAILABLE INFORMATION

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

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

## ITEM 1A – RISK FACTORS

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

### Risks Related to our Business

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

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

We face intense competition in our markets.

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

Our periodic results may be volatile.

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

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

our ability to successfully implement price increases and surcharges, as well as other changes in our pricing policies or those of our competitors;

variations in purchasing patterns by our customers, including due to weather conditions;

the ability of major customers and other debtors to meet their obligations to us as they come due;

our ability to successfully manage regulatory, intellectual property, tax and legal matters;

litigation and regulatory judgments and charges, settlements, or other litigation and regulatory-related costs;

the overall tax rate of our business, which may be affected by a number of factors, including the use of tax attributes,

the financial results of our international subsidiaries and the timing, size and integration of acquisitions we may make from time to time;

the incurrence of restructuring, impairment or other charges; and

general economic conditions and specific economic conditions in our industry and the industries of our customers.

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to volatility in the price and availability of natural gas, as well as other sources of energy. From time to time, we may use forward purchase contracts or financial instruments to hedge the volatility of a portion of our energy costs. The success or failure of any such hedging transactions depends on a number of factors, including our ability to anticipate and manage volatility in energy prices, the general demand for fuel by the manufacturing sector, seasonality and the weather patterns throughout the United States and the world.

The prices of other commodities such as paper, plastic resins, synthetic rubber and steel significantly influence the costs of packaging, replacement parts and equipment we use in the manufacture of our products and the maintenance of our facilities. Similarly, transportation prices impact our cost of packaging and raw materials we purchase, as well as our cost to deliver finished products to our customers. As a result, increases in the prices of commodities and transportation may increase our cost of sales and present the same types of risks as described above.

Our business could be negatively affected by supply, capacity, information technology and logistics disruptions or the costs incurred to avoid these disruptions.

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

Technology failures or cyber security breaches could have an adverse effect on the Company's business and operations.

We rely on information technology systems to process, transmit, store, and protect electronic information. For example, a significant portion of the communications between the Company's personnel, customers, and suppliers depends on information technology and we rely on access to such information systems for our operations. Disruptions, failures, cyber-attacks or privacy breaches in the information technology or phone systems of us or our customers could adversely affect our communications and business operations. Furthermore, security breaches pose a risk to confidential data and intellectual property, which could result in damages to our competitiveness and reputation. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber-attacks. Attacks may be targeted at us, our customers and suppliers, or others who have entrusted us with information. The Company has policies and procedures in place, including system monitoring and data back-up processes, to prevent or mitigate the effects of these potential disruptions or breaches. However, there can be no assurance that existing or emerging threats will not have an adverse impact on our systems or communications networks and, further, technological enhancements to prevent business interruptions could require increased spending.

Difficulties experienced in implementing our new enterprise resource planning system could adversely impact our financial results during the next fiscal year.



We are engaged in a multi-year implementation of a new enterprise resource planning system (“ERP”). The ERP is designed to accurately maintain our books and records and provide information important to the operation of our business. The ERP will continue to require investment of human and financial resources. Disruptions during the implementation of the ERP affected our ability to process orders, ship product and send invoices. These difficulties could, in turn, negatively impact our financial results during the next fiscal year, including sales, earnings and cash flow. While we have invested significant resources in planning and project management, further implementation issues may continue to cause delays, increased costs and other difficulties.

Changes in inventory strategy by our customers as well as other external factors could adversely affect our sales and increase our inventory risk.

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

The value of our inventory may decline as a result of surplus inventory, packaging changes driven by regulatory requirements or market refreshment, price reductions or obsolescence. We must identify the right product mix and maintain sufficient inventory on hand to meet customer orders. Failure to do so could adversely affect our revenue and operating results. If circumstances change (for example, an unexpected shift in market demand, pricing or customer defaults) there could be a material impact on the net realizable value of our inventory. We maintain an inventory valuation reserve account against diminution in the value or saleability of our inventory; however, there is no guaranty that these arrangements will be sufficient to avoid write-offs in excess of our reserves.

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

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

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

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

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

If we are found to be out of compliance with applicable laws and regulations in these or other areas, we could be subject to loss of customers and to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal

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

We are also experiencing increasing customer scrutiny of the content and manufacturing of our products, particularly our products entering or affecting the food chain, in parallel with the increasing government regulation discussed above. Our customers may impose product specifications, certifications or other requirements that are different from, and more onerous than, applicable laws and regulations. As a result, the failure of our products to meet these additional requirements may result in loss of customers and decreased sales of our products even in the absence of any actual failure to comply with applicable laws and regulations. There can be no assurance that future customer requirements concerning the content or manufacturing of our products will not have a material adverse effect on our business.

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

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

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

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

Failure to effectively utilize or successfully assert intellectual property rights, and the loss or expiration of such rights, could materially adversely affect our competitiveness. Infringement of third-party intellectual property rights could result in costly litigation and/or the modification or discontinuance of our products.

We rely on intellectual property rights based on trademark, trade secret, patent and copyright laws to protect our brands, products and packaging for our products. We cannot be certain that these intellectual property rights will be

maximized or that they can be successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights or, where appropriate, license intellectual property rights necessary to support new product introductions. We cannot be certain that these rights, if obtained, will not later be invalidated, circumvented or challenged, and we could incur significant costs in connection with legal actions to assert our intellectual property rights or to defend those rights from assertions of invalidity. In addition, even if such rights are obtained in the United States or in other countries, the laws of some of the other countries in which our products are or may be sold may not protect intellectual property rights to the same extent as the laws of the United States. If other parties infringe our intellectual property rights, they may dilute the value of our brands in the marketplace, which could diminish the value that consumers associate with our brands and harm our sales. The failure to perfect or successfully assert our intellectual property rights could make us less competitive and could have a material adverse effect on our business, operating results, and financial condition.

In addition, if our products are found to infringe intellectual property rights of others, the owners of those rights could bring legal actions against us claiming substantial damages for past infringement and seeking to enjoin manufacturing and marketing

of the affected products. If these legal actions are successful, in addition to any potential liability for damages from past infringement, we could be required to obtain a license in order to continue to manufacture or market the affected products, potentially adding significant costs. We may not prevail in any action brought against us or we may be unsuccessful in securing any license for continued use and therefore have to discontinue the marketing and sale of a product. This could make us less competitive and could have a material adverse impact on our business, operating results and financial condition. See Item 3 “Legal Proceedings” for more information about specific legal matters related to our patents.

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

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

We face risks to our domestic and international sales and business operations due to economic, political, regulatory and other conditions.

Unstable economic, political, regulatory and other conditions could adversely affect demand for our products or disrupt our operations in the United States and in international markets. International sales and operations are subject to currency exchange fluctuations, fund transfer and trade restrictions and import/export duties. In some cases, we may have difficulty enforcing agreements and collecting accounts receivable through a foreign country’s legal system. We derived approximately 23% of our consolidated net sales from sales outside of the United States in fiscal year 2018. Both international and domestic operations are also subject to regulatory requirements and issues, including with respect to environmental matters. Any of these matters could result in sudden, and potentially prolonged, changes in domestic and international demand for our products.

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

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

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

Section 404 of the Sarbanes-Oxley Act and related SEC rules require that we perform an annual management assessment of the design and effectiveness of our internal control over financial reporting and obtain an opinion from our independent registered public accounting firm on our internal control over financial reporting. Our assessment concluded that our internal control over financial reporting was effective as of July 31, 2018 and we obtained from our

independent registered public accounting firm an unqualified opinion on our internal control over financial reporting; however, there can be no assurance that we will be able to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time in future periods. Accordingly, we cannot assure that we will be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our Common Stock could drop significantly.

## Risks Related to Our Common Stock

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

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

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

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

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

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

The market price for our Common Stock may be volatile.

The market price of our Common Stock could fluctuate substantially in the future in response to a number of factors, including the following:

- fluctuations in our quarterly operating results or the operating results of our competitors;
- changes in general conditions in the economy, the financial markets, or the industries in which we operate;
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announcements of significant acquisitions, strategic alliances or joint ventures by us, our customers, suppliers or competitors;

• introduction of new products or services;

• increases in the price of energy sources and other raw materials; and

• other developments affecting us, our industries, customers or competitors.

In addition, the stock market may experience extreme price and volume fluctuations that have a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our Common Stock price, regardless of our operating results. Given its relatively small public float, number of stockholders and average daily trading volume, our Common Stock may be relatively more susceptible to volatility arising from any of these factors. There can be no assurance that the price of our Common Stock will increase in the future or be maintained at its recent levels.

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

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

Furthermore, in response to recent public focus on dual class capital structures, certain stock index providers are implementing limitations on the inclusion of dual class share structures in their indices. If these restrictions increase, they may impact who buys and holds our stock.

#### ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2 – PROPERTIES

## Real Property Holdings and Mineral Reserves

	Land Owned	Land Leased	Land Unpatented Claims	Total	Estimated Proven Reserves	Estimated Probable Reserves	Total
	(acres)				(thousands of tons)		
California	795	—	1,030	1,825	3,909	11,226	15,135
Georgia	3,846	1,451	—	5,297	32,923	23,673	56,596
Illinois	105	508	—	613	2,733	1,596	4,329
Mississippi	2,219	999	—	3,218	36,500	131,333	167,833
Nevada	535	—	—	535	23,316	2,976	26,292
Oregon	340	—	—	340	—	25	25
Tennessee	178	—	—	178	3,000	3,000	6,000
	8,018	2,958	1,030	12,006	102,381	173,829	276,210

The Mississippi, Georgia, Tennessee, Nevada, California and Illinois properties are primarily mineral in nature, except our research and development facility which is included in the Illinois owned land. We mine sorbent minerals primarily consisting of calcium bentonite, attapulgite and diatomaceous shale. We use geologists and mineral specialists who prepared the estimated reserves of these minerals in the table above. See also Item 1 “Business” above for further information about our reserves. The locations in the table above collectively produced approximately 727,000 tons and 753,000 tons of finished product in fiscal years 2018 and 2017, respectively. Parcels of such land are also sites of manufacturing facilities operated by us. We own approximately one acre of land in Laval, Quebec, Canada, which is the site of the processing, packaging and distribution facility for our Canadian subsidiary.

## MINING PROPERTIES

Our mining operations are conducted on land that we own or lease. The Georgia, Illinois and Mississippi mining leases generally require that we pay a minimum monthly rent to continue the lease term. The rental payments are typically applied against a stated royalty related to the number of unprocessed, or in some cases processed, tons of minerals extracted from the leased property. Many of our mining leases have no stated expiration dates. Some of our leases, however, do have expiration dates ranging from 2026 to 2097. We would not experience a material adverse effect from the expiration or termination of any of these leases. We have a variety of access arrangements, some of which are styled as leases, for manufacturing at facilities that are not contiguous with the related mines. We would not experience a material adverse effect from the expiration or termination of any of these arrangements. See also Item 1 “Business” above for further information on our reserves.

Certain of our land holdings in California are represented by unpatented mining claims we lease from the Bureau of Land Management. These leases generally give us the contractual right to conduct mining or processing activities on the land covered by the claims. The validity of title to unpatented claims, however, is dependent upon numerous factual matters. We believe the unpatented claims we lease are in compliance with all applicable federal, state and local mining laws, rules and regulations. Future amendments to existing federal mining laws, however, could have a prospective effect on mining operations on federal lands and include, among other changes, the imposition of royalty fees on the mining of unpatented claims, the elimination or restructuring of the patent system and an increase in fees for the maintenance of unpatented claims. To the extent that future proposals may result in the imposition of royalty fees on unpatented lands, the mining of our unpatented claims may become economically unfavorable. We cannot predict the form that any such amendments might take or whether or when such amendments might be adopted. In addition, the construction and operation of processing facilities on these sites would require the approval of federal, state and local regulatory authorities. See Item 1A “Risk Factors” above for a discussion of other risks to our business.

related to our mining properties.

## MINING AND MANUFACTURING METHODS

### Mining and Hauling

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

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

### Processing

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

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

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

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

### Packaging

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

## FACILITIES

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

## Oil-Dri Corporation of America Plant Site Locations

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

We have no mortgages on the real property we own. The leases for the locations listed above expire as follows: Shenzhen, China and Alpharetta, Georgia both in 2020; Wisbech, United Kingdom in 2032 and Chicago, Illinois in 2033. The lease for the Coppet, Switzerland office is on a year-to-year basis. We consider that our properties are generally in good condition, well maintained and suitable and adequate to carry on our business.

### ITEM 3 – LEGAL PROCEEDINGS

We are party to various legal actions from time to time that are ordinary in nature and incidental to the operation of our business. While it is not possible at this time to determine with certainty the ultimate outcome of these lawsuits, we believe that

none of the pending proceedings will have a material adverse effect on our business, financial condition, results of operations or cash flows; however, some proceedings, particularly the matters described below, could have a more significant impact than others.

On February 3, 2015, we brought suit in the United States District Court for the Northern District of Illinois, Eastern Division, against Nestlé Purina PetCare Company (“Nestlé”) seeking monetary damages and injunctive relief based on Nestlé’s alleged infringement of a patent held by us. The case was stayed for approximately two years, pending the Inter Partes Review (“IPR”) discussed immediately below; the stay was lifted in March 2017, and fact discovery is now complete in the case. The Court provided the parties with a claim construction decision on September 5, 2018, and has set a March 18, 2019 trial date.

On February 14, 2015, Nestlé filed a petition for the IPR with the Patent Trial and Appeal Board (“PTAB”) of the United States Patent and Trademark Office to challenge certain of the claims in our patent. The PTAB agreed to consider Nestlé’s petition, but on June 20, 2016, issued an order stating that Nestlé had not shown by a preponderance of the evidence that any of the challenged claims in our patent are unpatentable. In July 2016, Nestlé filed a motion for reconsideration of the PTAB’s decision, which was denied in February 2017. Nestlé timely filed an appeal of the PTAB’s decision to the U.S. Court of Appeals for the Federal Circuit. In November 2017, Nestlé filed a motion in that Court to remand the case to the PTAB for consideration of additional evidence that it claims should have been provided to the PTAB. On June 11, 2018, the Federal Circuit remanded the case back to the Board based on the agreement of the parties to consider an expanded record, as well as for the Board to consider the previously non-instituted grounds set forth in Nestlé’s IPR Petition. Briefing concerning these issues is currently taking place before the Board.

Due to the nature and current legal standing of the litigation with Nestlé, we cannot estimate the possible damages, if any, and the total expense associated with the lawsuits. Although no assurances can be given as to the results of the lawsuits, based on the present status, management does not believe that such results will have a material adverse effect on our financial condition or results of operations.

### ITEM 4 – MINE SAFETY DISCLOSURE

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

## PART II

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

Our Common Stock is traded on the NYSE under the symbol ODC. There is no established trading market for our Class B Stock. There are no shares of Class A Common Stock currently outstanding. See Note 6 of the Notes to the Consolidated Financial Statements for a description of our Common Stock, Class B Stock and Class A Common Stock. The number of holders of record of Common Stock and Class B Stock on September 29, 2018 were 640 and 24, respectively, as reported by our transfer agent. In the last three years, we have not sold any securities which were not registered under the Securities Act of 1933.

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

	Common Stock Price Range		Cash Dividends Per Share	
	Low	High	Common Stock	Class B Stock
Fiscal Year 2018:				
First Quarter	\$38.01	\$50.82	\$0.2300	\$0.1725
Second Quarter	\$37.92	\$46.64	0.2300	0.1725
Third Quarter	\$35.42	\$41.63	0.2300	0.1725
Fourth Quarter	\$35.77	\$46.73	0.2400	0.1800
Total			\$0.9300	\$0.6975
Fiscal Year 2017:				
First Quarter	\$32.55	\$39.52	\$0.2200	\$0.1650
Second Quarter	\$31.35	\$40.94	0.2200	0.1650
Third Quarter	\$33.26	\$40.95	0.2200	0.1650
Fourth Quarter	\$33.61	\$43.84	0.2300	0.1725
Total			\$0.8900	\$0.6675

**Dividends.** Our Board of Directors determines the timing and amount of any dividends. Our Board of Directors may change its dividend practice at any time. The declaration and payment of future dividends, if any, will depend upon, among other things, our future earnings, capital requirements, financial condition, legal requirements, contractual restrictions and other factors that our Board of Directors deems relevant. Our Credit Agreement with BMO Harris Bank N.A. (“BMO Harris”) requires that certain minimum net worth and tangible net worth levels are to be maintained. To the extent that these balances are not attained, our ability to pay dividends may be impaired. See Note 3 of the Notes to the Consolidated Financial Statements for further information about our note agreements.

**Issuer Repurchase of Equity Securities.** Our Board of Directors authorized the repurchase of 250,000 shares of Common Stock on March 11, 2011 and authorized the repurchase of an additional 250,000 shares on June 14, 2012. In addition, on March 21, 2018, the Board authorized the repurchase of 300,000 shares of Class B Stock. These authorizations do not have a stated expiration date. These 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. As of July 31, 2018, a total of 300,822 shares of Common Stock and 300,000 shares of Class B Stock may yet be repurchased under these authorizations.



ITEM 6 – SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide information under this item.

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

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

### OVERVIEW

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

Consolidated net income was \$8,240,000, or \$1.11 per diluted share, for the fiscal year ended July 31, 2018, a 24% decrease from net income of \$10,792,000, or \$1.47 per diluted share, for the fiscal year ended July 31, 2017. Net income in fiscal year 2018 was significantly impacted by a \$3,996,000 increase in tax expense to record the impact of the 2017 Tax Act on deferred income tax assets, which effectively reduced diluted net income per share by \$0.54 per share. See Note 5 of Notes to the Consolidated Financial Statements for more information about income taxes.

Net sales were up about 1% in fiscal year 2018 compared to fiscal year 2017; however, income from operations declined due to higher cost of sales. Lower selling, general and administrative expenses partially offset the increased cost of sales. Higher freight and packaging costs drove the increased cost of sales, while lower advertising costs reduced selling, general and administrative expenses.

Our Consolidated Balance Sheets as of July 31, 2018 and our Consolidated Statements of Cash Flows for fiscal year 2018 reflected the results of routine operating activities and significant non-recurring investments in the business. Total cash, cash equivalents and short-term investments decreased \$12,790,000 from fiscal year-end 2017. As in prior years, we spent cash for capital, dividends and debt payments. We also spent funds during the year for an enterprise resource planning system implementation and related infrastructure improvements. In addition, during fiscal year 2018 we made an \$11,500,000 voluntary contribution to our defined benefit pension plan in excess of the minimum amount required. This contribution also drove the \$13,255,000 decrease in the noncurrent liability for our pension and postretirement benefits. See Note 8 of Notes to the Consolidated Financial Statements for more information about our pension plan.

### RESULTS OF OPERATIONS

#### FISCAL YEAR 2018 COMPARED TO FISCAL YEAR 2017

#### CONSOLIDATED RESULTS

Consolidated net sales in fiscal year 2018 were \$266,000,000, an increase of \$3,693,000 from net sales of \$262,307,000 in fiscal year 2017. Net sales in our Business to Business Products Group increased for our products used in agricultural, fluids purification and animal health applications. Net sales in our Retail and Wholesale Products Group declined for our cat litter products, as well as for our subsidiaries in Canada and the United Kingdom. Sales fluctuations by operating segment are further discussed below.

Consolidated gross profit in fiscal year 2018 was \$72,002,000, a decrease of \$1,710,000 from gross profit of \$73,712,000 in the prior year. Our gross margin (defined as gross profit as a percentage of net sales) in fiscal year 2018 decreased to 27% from 28% in fiscal year 2017. Gross profit decreased due primarily to higher freight, packaging and non-fuel manufacturing costs. Freight costs per ton increased approximately 12% compared to the prior fiscal year. Freight rates increased due to new regulations in the trucking industry and a shortage of drivers, which have resulted in less truck availability. Packaging costs per ton were approximately 9% higher compared to the prior fiscal year. Significant amounts of our packaging purchases are subject to contractual

price adjustments throughout the year based on underlying commodity prices, including both resin and paper-based packaging. In addition, non-fuel manufacturing costs per ton were up approximately 3%, driven by reduced fixed cost absorption as we produced fewer tons of finished product, as well as by increased labor, salaries, repairs and depreciation costs. Depreciation costs increased as we continue to invest in machinery and equipment at our plants.

Total selling, general and administrative expenses were 2% lower in fiscal year 2018 compared to fiscal year 2017. The discussions of each segment's operating income below describe the changes in selling, general and administrative expenses that were allocated to that segment, particularly lower advertising expense in the Retail and Wholesale Products Group. The remaining unallocated corporate expenses in fiscal year 2018 included higher expenditures for outside legal fees associated with ongoing litigation (see Item 3 "Legal Proceedings"), for the implementation of our new enterprise resource planning software and for research and development. These higher corporate expenditures were partially offset by lower pension expense. Note 8 of Notes to the Consolidated Financial Statements provides more information about pension expense. In addition, the estimated annual incentive bonus accrual for fiscal year-end 2018 was higher compared to fiscal year-end 2017. The incentive bonus accrual was based on actual financial results achieved for the fiscal year and discretion by our Chief Executive Officer, in accordance with the incentive plan's provisions.

Tax expense for fiscal year 2018 was \$6,644,000 compared to \$3,753,000 in fiscal year 2017. Excluding the \$3,996,000 tax adjustment discussed in the "Overview" above, the effective tax rate for fiscal year 2018 would have been 17.8% compared to the fiscal year 2017 effective tax rate of 25.8%, due primarily to the lower U.S. federal corporate tax rate under the 2017 Tax Act. See Note 5 of the Notes to the Consolidated Financial Statements for additional information about our income taxes.

#### BUSINESS TO BUSINESS PRODUCTS GROUP

Net sales of the Business to Business Products Group for fiscal year 2018 were \$105,043,000, an increase of \$4,624,000, or 5%, from net sales of \$100,419,000 in fiscal year 2017. Net sales increased for our products used in agricultural applications, fluids purification and animal health.

Sales of our agricultural and horticultural products were approximately 13% higher. Sales improved primarily due to a new customer for our traditional agricultural chemical carrier granules. Sales of our fluid purification products increased approximately 5% primarily as a result of increased sales to petroleum oil and biodiesel processors in both foreign and domestic markets. Net sales of animal health and nutrition products were up approximately 4%, driven by increased sales in Latin America and a favorable product sales mix. Targeted marketing efforts for animal health products in Latin America resulted in significantly higher sales to both new and existing distributors. Lower sales of animal health products in North America and by our subsidiary in China partially offset the higher sales in Latin America. Our China subsidiary's results are further discussed in "Foreign Operations" below. Sales of our co-packaged cat litter declined approximately 8% due to reduced demand for coarse cat litters.

The Business to Business Products Group's selling, general and administrative expenses in fiscal year 2018 were approximately 4% higher compared to fiscal year 2017 due primarily to increased expenditures to develop and improve our animal health products.

The Business to Business Products Group's operating income in fiscal year 2018 was \$35,120,000, an increase of \$1,777,000 from operating income of \$33,343,000 in fiscal year 2017. The improved income was primarily due to higher sales, which more than offset increased freight, packaging and non-fuel manufacturing costs. See further discussion of these costs in "Consolidated Results" above.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal year 2018 were \$160,957,000, a decrease of \$931,000, or 1%, from net sales of \$161,888,000 in fiscal year 2017. Sales declined for our cat litter products and for our subsidiaries in Canada and the United Kingdom. Our foreign subsidiaries' results are discussed further in "Foreign Operations" below. Sales of our industrial absorbent and sports products decreased slightly from the prior year.

Total cat litter net sales were down approximately 1% compared to the prior year. Lower sales of branded litters were mostly offset by higher sales of private label litter. Branded litter sales were negatively impacted by the loss of a customer; however, significantly higher e-commerce sales lessened the branded litter decline. Sales of our private label lightweight scoopable litter grew, driven by new distribution and increased sales to current customers. Partially offsetting this increase was lower sales of private label coarse litter due to the loss of a customer.

Selling, general and administrative expenses for the Retail and Wholesale Products Group were approximately 16% lower compared to fiscal year 2017. The decrease was driven by approximately \$3,100,000 lower advertising expense. We plan to continue promoting our lightweight litter and we expect the advertising expense in fiscal year 2019 to be at similar levels as fiscal year 2018.

The Retail and Wholesale Products Group's segment operating income for fiscal year 2018 was \$6,975,000, an increase of \$200,000, or 3%, from operating income of \$6,775,000 in fiscal year 2017. The reduction in advertising costs, as discussed above, and the benefit of a favorable product sales mix outweighed higher freight, packaging and non-fuel manufacturing costs. See further discussion of these costs in "Consolidated Results" above.

#### FOREIGN SUBSIDIARIES

Foreign operations include our subsidiaries in Canada and the United Kingdom, which are included in the Retail and Wholesale Products Group, and our subsidiaries in China and Mexico, which are included in the Business to Business Products Group. Net sales by our foreign subsidiaries during fiscal year 2018 were \$11,842,000, a decrease of \$693,000, or 6%, from net sales of \$12,535,000 during fiscal year 2017. Net sales by our foreign subsidiaries represented 4% and 5% of our consolidated net sales during fiscal years 2018 and 2017, respectively. The decrease in net sales was driven by approximately 17% fewer tons of animal health and nutrition products sold by our subsidiary in China, primarily as the result of lower sales to the succeeding consolidated business after the merger of two customers.

For fiscal year 2018, our foreign subsidiaries reported a net loss of \$9,000, compared to a net loss of \$41,000 in fiscal year 2017. The net loss decreased due primarily to a favorable product sales mix for our subsidiaries in Canada and the United Kingdom, as well as a positive exchange rate impact upon conversion of our China subsidiary's financial statements from the Chinese Yuan to the U.S. Dollar.

Identifiable assets of our foreign subsidiaries as of July 31, 2018 were \$9,321,000 compared to \$8,028,000 as of July 31, 2017. The increase was due primarily to the addition of assets in fiscal year 2018 upon acquisition of an interest in our foreign subsidiary in Mexico.

#### 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; paying dividends; making pension contributions and business acquisitions. During fiscal year 2018, we primarily used cash generated from operations to fund these requirements. In addition, during fiscal year 2018 we borrowed under our revolving credit agreement with BMO Harris to make a voluntary contribution to our pension plan. This borrowing is described under "Other" below and the pension plan is discussed in Note 8 of the Notes to the Consolidated Financial Statements. Cash and cash equivalents totaled \$12,757,000 and \$9,095,000 as of July 31, 2018 and 2017, respectively. Short term investments were \$7,124,000 and \$23,576,000 as of July 31, 2018 and 2017, respectively.

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

	2018	2017
Net cash provided by operating activities	\$10,612	\$26,949
Net cash provided by (used in) investing activities	2,572	(28,044 )
Net cash used in financing activities	(9,339 )	(8,550 )
Effect of exchange rate changes on cash and cash equivalents	(183 )	111
Net increase (decrease) in cash and cash equivalents	\$3,662	\$(9,534 )

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 fiscal years 2018 and 2017 were as follows:

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Deferred income taxes were \$7,270,000 lower at fiscal year-end 2018 compared to fiscal year-end 2017, and were \$2,408,000 lower at fiscal year-end 2017 compared to fiscal year-end 2016. During fiscal year 2018, an adjustment to reflect the lower U.S. federal corporate tax rate under the 2017 Tax Act resulted in reduced deferred taxes, particularly related to depreciation, deferred compensation and postretirement benefits. See Note 5 of the Notes to the Consolidated Financial Statements for further information about income taxes. A decrease in both the pension and postretirement benefits liability and the trade promotions and advertising expense accrual drove the lower deferred income taxes at fiscal year-end 2017 compared to fiscal year-end 2016.

Accounts receivable, less allowance for doubtful accounts and cash discounts, were \$270,000 higher at fiscal year-end 2018 compared to fiscal year-end 2017, but were \$2,344,000 higher at fiscal year-end 2017 compared to fiscal year-end 2016. Fluctuations in accounts receivable balances were impacted by the timing of both sales and collections, as well as the payment terms provided to various customers. In addition, sales in the fourth quarter of fiscal year 2017, particularly in the month of July, were higher than in the fourth quarter of fiscal year 2016.

Inventories were \$225,000 lower at fiscal year-end 2018 compared to fiscal year-end 2017 due primarily to a higher reserve for discontinued, slow moving and unsaleable inventory. Inventories were \$666,000 lower at fiscal year-end 2017 compared to fiscal year-end 2016 due primarily to lower fuel oil and purchased ingredients inventories, which were partially offset by a higher finished goods inventory. In fiscal 2017, we elected to reduce our fuel oil reserves held in tanks at our plants given our continued use of lower cost natural gas and to allow preventative maintenance to be performed. Furthermore, finished goods and purchased ingredient inventories vary from year to year due to anticipated sales requirements and the mix of products to be produced.

Prepaid expenses were \$807,000 higher at fiscal year-end 2018 compared to fiscal year-end 2017 due primarily to increased prepaid income taxes, which was partially offset by lower prepaid advertising costs. Prepaid expenses were \$1,248,000 higher at fiscal year-end 2017 compared to fiscal year-end 2016 due primarily to higher prepaid advertising costs.

Other assets were \$134,000 lower at fiscal year-end 2018 compared to fiscal year-end 2017 due primarily to a reduction of prepaid long-term maintenance for computer hardware and software. Conversely, increased prepaid long-term maintenance for computer hardware and software resulted in a \$694,000 increase in other assets at fiscal year-end 2017 compared to fiscal year-end 2016.

Accounts payable, including income taxes payable, were \$2,436,000 lower at fiscal year-end 2018 compared to fiscal year-end 2017. Accounts payable were \$2,423,000 higher at fiscal year-end 2017 compared to fiscal year-end 2016. Changes in trade accounts payable in all periods are subject to normal fluctuations in the timing of payments, the cost of goods and services we purchased, production volume levels and vendor payment terms.

Accrued expenses were \$771,000 higher at fiscal year-end 2018 compared to fiscal year-end 2017 due primarily to a higher accrued discretionary annual bonus, which was partially offset by lower accruals for trade promotions and advertising. Accrued expenses were \$845,000 lower at fiscal year-end 2017 compared to fiscal year-end 2016 due primarily to a lower accruals for the annual bonus and for trade promotions and advertising. Furthermore, changes in other accrued expenses in all periods related to ongoing operations are also subject to normal fluctuations in the timing of payments.

Pension and other postretirement liabilities, net of the adjustment recorded in stockholders' equity, were \$11,048,000 lower at fiscal year-end 2018 compared to fiscal year-end 2017, and were \$209,000 higher at fiscal year-end 2017 compared to fiscal year-end 2016. The liability decrease in fiscal year 2018 was due primarily to an \$11,500,000 voluntary contribution in excess of the minimum amount required. The liability increase in fiscal year 2017 was due to continued benefits accumulation, which were significantly offset by the benefits of both a higher discount rate and an updated mortality table used for the actuarial calculation of these obligations. See Note 8 of the Notes to the



Consolidated Financial Statements for more information regarding our postretirement benefit plans.

Net cash provided by (used) in investing activities

Cash provided by investing activities was \$2,572,000 in fiscal year 2018 and cash used in investing activities was \$28,044,000 in fiscal year 2017. During fiscal years 2018, dispositions of short-term investments provided cash in excess of purchases by \$16,581,000. The excess cash was used in part to fund the voluntary contribution to our pension plan. In fiscal year 2017, purchases of short-term investments exceeded dispositions by \$13,345,000. Purchases and dispositions of investment securities in all periods are subject to variations in the timing of investment maturities and the operating cash needs of the Company.

Capital expenditures of \$15,074,000 in fiscal year 2018 and of \$14,763,000 in fiscal year 2017 included spending for the enterprise resource planning system implementation and related infrastructure improvements, as well as equipment additions and replacement at our manufacturing facilities.

In addition, \$1,747,000 cash proceeds were received in fiscal year 2018 from the closing of a life insurance policy on a former key employee.

#### Net cash used in financing activities

Cash used in financing activities was \$9,339,000 in fiscal year 2018 and \$8,550,000 in fiscal year 2017. The primary uses of cash in all periods were for long-term debt and dividend payments.

#### Other

Total cash and investment balances held by our foreign subsidiaries as of July 31, 2018 and 2017 were \$1,849,000, \$1,509,000, respectively. See further discussion in the “Foreign Operations” section above.

We have a \$25,000,000 unsecured revolving credit agreement with BMO Harris which expires on December 4, 2019. The agreement also provides for a maximum of \$5,000,000 for foreign letters of credit. Under the agreement we may select a variable rate based on either the BMO Harris prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed between us and BMO Harris. As of July 31, 2018, the variable rates would have been 5.00% for BMO Harris’ prime-based rate or 3.34% for LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of July 31, 2018 and 2017, we were in compliance with its covenants. As of July 31, 2018 and 2017, there were no outstanding borrowings under this credit agreement; however, there was a total of \$1,236,000 allocated for guarantees required by one of our insurance policies and by a state environmental regulation.

We borrowed \$6,000,000 at a weighted average interest rate of 2.96% under the credit agreement with BMO Harris during the third quarter of fiscal 2018. We repaid this borrowing in the fourth quarter of fiscal 2018. The proceeds from the borrowing were used to partially fund the voluntary contribution to our pension plan. There were no other borrowings during either fiscal year 2018 or 2017.

See Note 3 of the Notes to the Consolidated Financial Statements for information about our outstanding notes payable.

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, dividend payments and debt service obligations for at least the next 12 months. We spent approximately \$3,100,000 less for advertising in fiscal year 2018 compared to fiscal year 2017 due to lower expenditures to promote our lightweight cat litter. We plan to continue promoting our lightweight products and we expect advertising expense in fiscal year 2019 to be similar to fiscal year 2018. We also anticipate that our capital expenditures in fiscal year 2019 will be higher than in fiscal year 2018 due primarily to planned spending at our manufacturing facilities. We do not anticipate 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 and to remain in compliance with all of the 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.

#### OFF BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities. As of July 31, 2018 we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

We maintain valuation allowances where it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could affect the realization of deferred tax assets. For example, certain factors, such as depletion and the cost of fuel used in our manufacturing process are difficult to predict and have a significant impact on our ability to use the deferred tax benefit related to our AMT credit carryforwards.

We recorded valuation allowances of \$789,000 and \$793,000 for the amount of the deferred tax benefit related to our foreign net operating loss carryforwards as of July 31, 2018 and 2017, respectively, because we believe it is unlikely we will realize the benefit of these tax attributes in the future.

In addition to valuation allowances, we may provide for uncertain tax positions when such tax positions do not meet certain recognition thresholds or measurement standards. Amounts for uncertain tax positions are adjusted when new information becomes available or when positions are effectively settled. We did not record a liability for unrecognized tax benefits at either July 31, 2018 or 2017. See Note 5 of the Notes to the Consolidated Financial Statements for further discussion.

**Trade Promotions.** We routinely commit to one-time or ongoing trade promotion programs in our Retail and Wholesale Products Group. Promotional reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. All such trade promotion costs are netted against sales. Promotional reserves are established based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. To estimate trade promotion reserves, we rely on our historical experience of trade spending patterns and that of the industry, current trends and forecasted data. While we believe our

promotional reserves are reasonable and that appropriate judgments have been made, estimated amounts could differ from future obligations. We have accrued liabilities at the end of each period for the estimated trade spending programs. We recorded liabilities of approximately \$1,024,000 and \$1,495,000 for trade promotions as of July 31, 2018 and 2017, respectively.

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

The discount rate is the rate assumed to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. The discount rate is subject to change each year. We refer to an applicable index and the expected duration of the benefit payments to select a discount rate at which we believe the benefits could be effectively settled. The discount rate was the single equivalent rate that would yield the same present value as the plan's expected cash flows discounted with spot rates on a yield curve of investment-grade corporate bonds. The yield curve used in both fiscal years 2018 and 2017 was the FTSE Pension Discount Curve (formally called the Citi Pension Discount Curve.) Our determination of pension expense or income is based on a market-related valuation of plan assets, which is the fair market value. Our expected rate of return on plan assets is determined based on asset allocations and historical experience. The expected long-term rate of inflation and risk premiums for the various asset categories are based on general historical returns and inflation rates. The target allocation of assets is used to develop a composite rate of return assumption. See Note 8 of the Notes to the Consolidated Financial Statements for additional information.

**Trade Receivables.** We recognize trade receivables when the risk of loss and title pass to the customer. We record an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts, consideration of customer credit risk and analysis of facts and circumstances about specific 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. We believe our allowance for doubtful accounts is reasonable; however, the unanticipated default by a customer with a material trade receivable could occur. We also record an estimated allowance for cash discounts offered in our payment terms to some customers. We recorded a total allowance for doubtful accounts and cash discounts of \$817,000 and \$748,000 as of July 31, 2018 and 2017, respectively.

**Revenue Recognition.** We recognize revenue when risk of loss and title are transferred under the terms of our sales agreements with customers at a fixed and determinable price and collection of payment is probable. Taxes collected from customers and remitted to governmental authorities are excluded from net sales. Sales returns and allowances are not material.

**Inventories.** We value inventories at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a detailed review of our inventory to determine if a reserve adjustment is necessary, giving consideration to obsolescence, inventory levels, product deterioration and other factors. The review also surveys all of our operating facilities and sales divisions to give consideration to historic and new market trends. The inventory reserve values as of July 31, 2018 and 2017 were \$1,136,000 and \$619,000, respectively.

**Reclamation.** During the normal course of our mining process we remove overburden and perform on-going reclamation activities. As overburden is removed from a mine site, it is hauled to a previously mined site and used to refill older sites. This process allows us to continuously reclaim older mine sites and dispose of overburden simultaneously, therefore minimizing the costs associated with the reclamation process. On an annual basis we evaluate our potential reclamation liability in accordance with ASC 410, Asset Retirement and Environmental Obligations. As of July 31, 2018 and 2017, we have recorded an estimated net reclamation asset of \$718,000 and \$754,000, respectively, and a corresponding estimated reclamation liability of \$2,000,000 as of July 31, 2018 and \$1,878,000 as of July 31, 2017. These values represent the discounted present value of the estimated future mining reclamation costs at the production plants. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge over the estimated useful lives of the mines.

Accounting for reclamation obligations requires that we make estimates unique to each mining operation of the future costs we will incur to complete the reclamation work required to comply with existing laws and regulations. Actual

future costs incurred could significantly differ from estimated amounts. Future changes to environmental laws could increase the extent of reclamation work required. Any such increases in future costs could materially impact the amount incurred for reclamation costs.

Impairment of goodwill, trademarks and other intangible assets. We review carrying values of goodwill, trademarks and other indefinite-lived intangible assets periodically for possible impairment in accordance ASC 350, Intangibles – Goodwill and Other. Our impairment review requires significant judgment with respect to factors such as volume, revenue and expenses. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is performed in the fourth quarter of the fiscal year and may be re-performed during the year when indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts indicate that an asset may become impaired. Our impairment analysis performed in the fourth quarters of both fiscal years 2018 and 2017 did not indicate any impairment. We continue to monitor events, circumstances or changes in the business that might imply a reduction in value which could lead to an impairment.

## NEW ACCOUNTING PRONOUNCEMENTS

### Recently Adopted Accounting Pronouncements

In the first quarter of fiscal year 2018, we adopted the Financial Accounting Standards Board (“FASB”) guidance under Accounting Standards Codification (“ASC”) 718, Compensation-Stock Compensation, that simplified several aspects of the accounting for share-based payment transactions, including accounting for income taxes and classification of excess tax benefits in the statement of cash flows. As a result of implementing this guidance, we recognized \$175,000 of excess tax benefits as a reduction of income tax expense for fiscal year 2018, rather than in Stockholders' Equity on the Consolidated Balance Sheets, and is classified in operating activities on the Consolidated Statements of Cash Flows. These changes have been applied prospectively in accordance with the guidance and prior period presentations have not been adjusted. The adoption resulted in approximately a 1% benefit to our effective tax rate for fiscal year 2018. In addition, we excluded the excess tax benefits from the assumed proceeds available to repurchase shares under the treasury stock method for the computation of diluted earnings per share. This change did not have a material impact on our diluted earnings per share for fiscal year 2018. The guidance allows for a policy election to either use estimated forfeitures or account for them as they occur to determine the amount of compensation cost to be recognized each period. We have elected to continue to account for forfeitures on an estimated basis. No other material changes resulted from the adoption of this standard.

In the first quarter of fiscal year 2018, we adopted the FASB guidance under ASC 740, Balance Sheet Classification of Deferred Taxes, which required deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. Prior periods presented were also restated. We reclassified \$2,787,000 from Total Current Assets to Total Other Assets on the Consolidated Balance Sheets as of July 31, 2017.

In the first quarter of fiscal year 2018, we adopted the FASB guidance under ASC 330, Simplifying the Measurement of Inventory. The new guidance required inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In the third quarter of fiscal year 2018, we early adopted the FASB guidance under ASC 220, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Current U.S. GAAP requires deferred tax liabilities and assets to be adjusted for a change in tax laws or rates with the effect included in income from continuing operations, even when the deferred taxes being remeasured were established through other comprehensive income. As a result, a disproportionate tax effect may remain in accumulated other comprehensive income. The new guidance under ASC 220 provided an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects that resulted from the 2017 Tax Act, which was enacted on December 22, 2017. Upon adoption of the guidance, we reclassified \$2,264,000 from accumulated other comprehensive income to retained earnings on the unaudited Consolidated Balance Sheets. See Notes 6 and 5 of the Notes to the Consolidated Financial Statements for further information about our accumulated other comprehensive income and about the impact of the 2017 Tax Act, respectively.

### Recently Issued Accounting Standards

In May 2014, the FASB issued guidance under ASC 606, Revenue from Contracts with Customers, which establishes a single comprehensive revenue recognition model for all contracts with customers and will supersede most existing revenue guidance. This guidance was subsequently amended several times to further clarify the principles for recognizing revenue. The guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange. Oil-Dri's revenue is generated from the sale of finished goods to customers. Those sales predominantly



contain a single delivery obligation. Under Oil-Dri's current accounting policy, revenue is recognized at a single point in time when ownership, risks and rewards transfer. We are in the process of finalizing our assessment and documentation of our evaluation of the new standard. Based on our evaluation process completed to date and review of our contracts with customers, the timing and amount of revenue recognized under the new guidance is not significantly changed from our revenue recognition under previous guidance. We plan to adopt the standard at the beginning of our first quarter of fiscal year 2019 using the modified retrospective implementation method, and we will expand our financial statement disclosures as required. The adoption of this new guidance is not expected to have a material impact on our results operations, cash flows or financial position.

In January 2016, the FASB issued guidance under ASC 825, Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance is effective for our first quarter of fiscal year 2019. The provisions relevant to us relate to fair value disclosures for our notes payable, which are measured at amortized cost on the balance sheet. These provisions require the use of

the exit price notion when measuring the fair value of financial instruments for disclosure purposes, as well as eliminate the requirement to disclose the method and significant assumptions used to estimate the fair value in such disclosure. This guidance impacts disclosures only and will not have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued guidance under ASC 715, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires presenting the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. This standard also requires that other components of the net periodic benefit cost be presented separately from the line item(s) that includes service costs and outside of any subtotal of operating income, if one is presented, on a retrospective basis. Additionally, the new guidance limits the components that are eligible for capitalization in assets to only the service cost component. The new guidance is effective for our first quarter of fiscal year 2019. Upon adoption of this guidance, we will separately present the components of net periodic benefit cost or income related to our pension plan and postretirement health plan, excluding the service cost component, in non-operating expenses on a retrospective basis. See Note 8 of the Notes to the Consolidated Financial Statements for further information about our pension and postretirement health plans.

A summary of all recently issued accounting standards is contained in Note 1 of Notes to the Consolidated Financial Statements.

#### ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information under this item.

## ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED BALANCE SHEETS

	July 31,	
	2018	2017
	(in thousands)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$12,757	\$9,095
Short-term investments	7,124	23,576
Accounts receivable, less allowance of \$817 and \$748 in 2018 and 2017, respectively	33,602	32,750
Inventories	22,521	22,615
Prepaid repairs expense	4,111	3,890
Prepaid expenses and other assets	2,899	2,304
Total Current Assets (1)	83,014	94,230
Property, Plant and Equipment		
Buildings and leasehold improvements	38,534	37,284
Machinery and equipment	141,530	136,900
Office furniture and equipment	11,089	10,356
Vehicles	14,151	13,615
Gross depreciable assets	205,304	198,155
Less accumulated depreciation and amortization	(149,385 )	(140,411 )
Net depreciable assets	55,919	57,744
Construction in progress	13,985	9,649
Land and mineral rights	16,802	16,640
Total Property, Plant and Equipment, Net	86,706	84,033
Other Assets		
Goodwill	9,262	9,034
Trademarks and patents, net of accumulated amortization of \$267 and \$238 in 2018 and 2017, respectively	1,220	1,223
Customer list, net of accumulated amortization of \$5,540 and \$4,601 in 2018 and 2017, respectively	2,245	3,184
Deferred income taxes	7,349	14,396
Other	4,886	6,475
Total Other Assets (1)	24,962	34,312
Total Assets	\$194,682	\$212,575

(1) Prior year amounts have been retrospectively adjusted to conform to the current year presentation of deferred income taxes required by new guidance under ASC 740, Balance Sheet Classification of Deferred Taxes. See Note 1 of the Notes to the Consolidated Financial Statements for details.



OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED BALANCE SHEETS  
(continued)

	July 31,	
	2018	2017
	(in thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable	\$3,083	\$3,083
Accounts payable	6,543	9,594
Dividends payable	1,627	1,553
Accrued expenses		
Salaries, wages and commissions	8,974	7,917
Trade promotions and advertising	1,280	2,253
Freight	1,767	1,606
Other	7,675	6,948
Total Current Liabilities	30,949	32,954
Noncurrent Liabilities		
Notes payable, net of unamortized debt issuance costs of \$60 and \$89 in 2018 and 2017, respectively	6,107	9,161
Deferred compensation	6,100	11,537
Pension and postretirement benefits	15,906	29,161
Other	3,735	3,725
Total Noncurrent Liabilities	31,848	53,584
Total Liabilities	62,797	86,538
Stockholders' Equity		
Common Stock, par value \$.10 per share, issued 8,086,849 shares in 2018 and 8,015,166 shares in 2017	809	802
Class B Stock, convertible, par value \$.10 per share, issued 2,468,979 shares in 2018 and 2,513,512 shares in 2017	247	251
Additional paid-in capital	38,473	36,242
Retained earnings	158,935	154,735
Noncontrolling interest	(18)	—
Accumulated Other Comprehensive Loss		
Pension and postretirement benefits	(10,384)	(10,327)
Cumulative translation adjustment	(231)	35
Total Accumulated Other Comprehensive Loss	(10,615)	(10,292)
Less treasury stock, at cost (2,914,092 Common and 324,741 Class B shares in 2018 and 2,907,370 Common and 324,741 Class B shares in 2017)	(55,946)	(55,701)
Total Stockholders' Equity	131,885	126,037
Total Liabilities and Stockholders' Equity	\$194,682	\$212,575

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



OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended July 31,	
	2018	2017
	(in thousands, except for per share data)	
Net Sales	\$266,000	\$262,307
Cost of Sales	(193,998 )	(188,595 )
Gross Profit	72,002	73,712
Selling, General and Administrative Expenses	(57,332 )	(58,482 )
Income from Operations	14,670	15,230
Other Income (Expense)		
Interest income	259	95
Interest expense	(676 )	(888 )
Foreign exchange loss	—	(184 )
Other, net	613	292
Total Other Income (Expense), Net	196	(685 )
Income Before Income Taxes	14,866	14,545
Income Tax Expense	(6,644 )	(3,753 )
Net Income	\$8,222	\$10,792
Net Loss Attributable to Noncontrolling Interest	(18 )	—
Net Income Attributable to Oil-Dri	8,240	10,792
Net Income Per Share		
Basic Common	\$1.22	\$1.60
Basic Class B Common	\$0.91	\$1.20
Diluted Common	\$1.11	\$1.47
Average Shares Outstanding		
Basic Common	5,036	5,017
Basic Class B Common	2,097	2,083
Diluted Common	7,222	7,158

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

OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended July	
	31,	
	2018	2017
	(in thousands)	
Net Income Attributable to Oil-Dri	\$8,240	\$10,792
Other Comprehensive Income (Loss):		
Pension and postretirement benefits (net of tax)	2,207	3,540
Cumulative translation adjustment	(266	) 190
Other Comprehensive Income	1,941	3,730
Comprehensive Income	\$10,181	\$14,522

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



OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Number of Shares		(in thousands)						
	Common & Class B Stock	Treasury Stock	Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders' Equity
Balance, July 31, 2016	10,497,978	(3,237,694)	\$ 1,050	\$ 34,294	\$ 149,945	\$(55,716)	\$(14,022 )	\$ —	\$ 115,551
Net income			—	—	10,792	—	—	—	10,792
Other comprehensive income			—	—	—	—	3,730	—	3,730
Dividends declared			—	—	(6,002 )	—	—	—	(6,002 )
Purchases of treasury stock		(3,917 )	—	—	—	(135 )	—	—	(135 )
Net issuance of stock under long-term incentive plans	30,700	9,500	3	17	—	150	—	—	170
Share-based compensation			—	424	—	—	—	—	424
Amortization of restricted stock			—	1,507	—	—	—	—	1,507
Balance, July 31, 2017	10,528,678	(3,232,111)	\$ 1,053	\$ 36,242	\$ 154,735	\$(55,701)	\$(10,292 )	\$ —	\$ 126,037
Net income			—	—	8,240	—	—	(18 )	8,222
Other comprehensive income			—	—	—	—	1,941	—	1,941
Reclassification upon adoption of accounting standard (see Note 1)			—	—	2,264	—	(2,264 )	—	—
Dividends declared			—	—	(6,304 )	—	—	—	(6,304 )
Purchases of treasury stock		(622 )	—	—	—	(27 )	—	—	(27 )
Net issuance of stock under long-term incentive plans	27,150	(6,100 )	3	456	—	(218 )	—	—	241
Amortization of restricted stock			—	1,775	—	—	—	—	1,775
Balance, July 31, 2018	10,555,828	(3,238,833)	\$ 1,056	\$ 38,473	\$ 158,935	\$(55,946)	\$(10,615 )	\$(18 )	\$ 131,885

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

OIL-DRI CORPORATION OF AMERICA  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year-Ended July 31, 2018      2017 (in thousands)	
Cash Flows from Operating Activities		
Net income	\$8,222	\$10,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,756	12,772
Amortization of investment discounts	(129 )	