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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**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, 2000 Commission File No. 0-8675**

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**OIL-DRI CORPORATION OF AMERICA**

(Exact name of Registrant as specified in its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**36-2048898**

(I.R.S. Employer Identification No.)

**410 North Michigan Avenue, Suite 400**

**Chicago, Illinois**

(Address of principal executive offices)

**60611-4213**

(Zip Code)

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

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 \$.10 per share    New York Stock Exchange

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

**None**

(Title of Class)

Number of Shares of each class of the Registrant's Common Stock outstanding as of September 29, 2000:

Common Stock — 5,470,435 shares (including 1,281,769 treasury shares)

Class B Stock — 1,765,083 shares (including 342,241 treasury shares)

Class A Common Stock — 0 shares

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 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.

Aggregate market value of the Registrant's Common Stock owned by non-affiliates — \$35,950,460 (based on the closing price on September 29, 2000).

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents are incorporated herein by reference:

1. The Registrant's Proxy Statement for its 2000 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission not later than November 28, 2000 (120 days after the end of the Registrant's fiscal year ended July 31, 2000), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.

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## PART I

### Item 1. Business

Oil-Dri Corporation of America was incorporated in 1969 in Delaware as the successor to an Illinois corporation incorporated in 1946 which was the successor to a partnership which commenced business in 1941. Except as otherwise indicated herein or as the context otherwise requires, references herein to “Registrant” or to “Company” are to Oil-Dri Corporation of America and its subsidiaries. The Registrant is a leader in developing, manufacturing and marketing sorbent products and related services for the consumer, fluids purification, agricultural, and industrial and automotive markets. The Registrant’s products are principally produced from clay minerals and, to a lesser extent, other sorbent materials. Consumer products, consisting primarily of cat litter, are sold through the grocery products industry, mass merchandisers, warehouse clubs, and pet specialty retail outlets. Fluids purification products, consisting primarily of bleaching, filtration and clarification clays, are sold to processors and refiners of edible and petroleum-based oils. Agricultural products, which include carriers for crop protection chemicals and fertilizers, drying agents, soil conditioners, sports field products, pellet binders for animal feeds and flowability aids, are sold to manufacturers of agricultural chemicals and distributors of other agricultural and sports turf products. Industrial and automotive products, consisting primarily of oil, grease and water sorbents (both clay and non-clay), are sold to distributors of industrial cleanup and automotive products, environmental service companies and retail outlets.

The Registrant’s sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of the Registrant’s absorbent products are CAT’S PRIDE® Premium cat litter and other cat litters, OIL-DRI ALL PURPOSE® clay floor absorbent and AGSORB® granular agricultural chemical carriers.

Adsorbent products attract liquids, impurities, metals and surfactants to themselves and form low level chemical bonds. The Registrant’s adsorbents are used for cleanup and filtration mediums. The Registrant’s adsorbent products include OIL-DRI LITE® sorbents for industrial cleanup, PURE-FLO®, PURE-FLO® Supreme, PERFORM™ and SELECT™ bleaching clays for edible oils, fats and tallows, and ULTRA-CLEAR® clarification aids for petroleum-based oils and by-products.

The Registrant has pursued a strategy of developing products for consumer, fluids purification, agricultural and industrial and automotive uses, where the Registrant’s marketing, manufacturing and research and development capabilities can play important roles. The Registrant’s products are sold through its specialized divisional sales staffs supported by technical service representatives and through a network of industrial distributors and food brokers. The Registrant maintains its own research and development facility and staff.

Certain financial information on segments is contained in Note 4 of the “Notes to Consolidated Financial Statements,” incorporated herein by reference. 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 is the same as the information on net sales of segments furnished in Note 4 of the “Notes to Consolidated Financial Statements.”

Certain financial information about the Registrant’s foreign and domestic operations is contained in Note 4 of the “Notes to Consolidated Financial Statements,” incorporated herein by reference.

#### *Consumer Products*

The Registrant’s cat litter products, in both coarse granular and fine granular clumping (scoopable) forms, are sold under the Registrant’s CAT’S PRIDE® and LASTING PRIDE® brand names, FRESH STEP® brand manufactured for The Clorox Company, Arm & Hammer® SUPER STOP™ brand manufactured for Church & Dwight Co., Inc., and private label cat litters manufactured for mass merchandisers, wholesale clubs, drug chains, pet superstores and retail grocery stores. Alternative litters, made from recycled paper, are sold under the DUST STOPPER® (coarse) and SCOOP ’N FLUSH® (scoopable) brand cat litter and are marketed through similar channels. The Registrant also packages and markets CAT’S

PRIDE® KAT KIT cat litter in a disposable tray. These products are sold through independent food brokers and the Registrant's representatives to major grocery outlets such as Publix, Kroger, Stop and Shop and others. LASTING PRIDE® cat litter is principally sold to mass merchandisers such as Wal-Mart and K-Mart.

The Registrant and The Clorox Company have long-term arrangements, expiring in January 2005, under which they developed FRESH STEP® premium-priced cat litter products and under which the Registrant has a long-term exclusive right to supply The Clorox Company's requirements for FRESH STEP® coarse cat litter up to certain levels. The Registrant and The Clorox Company are discussing possible extension of this agreement. FRESH STEP® brand, which is owned, trademarked and marketed by The Clorox Company, utilizes the Registrant's special low density, highly absorbent clay mineral. FRESH STEP® cat litter contains microencapsulated odor controllers which are activated by the cat. According to independently published supermarket industry reports, FRESH STEP® coarse cat litter was the largest dollar grossing branded cat litter sold through grocery chains in the United States in the 52-week period ended August 6, 2000.

In the first quarter of fiscal year 2000, the Registrant and Church & Dwight Co., Inc. entered into a long-term supply agreement whereby the Registrant is the exclusive manufacturer for a new cat litter, Arm and Hammer® SUPER STOP™. This traditional or non-clumping cat litter utilizes an odor control formula developed by Church & Dwight. Church & Dwight will control all aspects of sales and marketing of this brand.

Traditional coarse granular clay litters once represented approximately 98% of the market. Beginning in 1990, the cat litter market changed and traditional coarse litters are now complemented by new, fine granule clumping (scoopable) products. These clumping products have the characteristic of binding together and expanding when moisture is introduced. The Registrant's clumping cat litter is based on naturally occurring organic ingredients which are biodegradable. On an industry-wide basis, clumping cat litters have assumed market shares in excess of approximately 53% of retail dollar sales volume in the grocery industry and 65% of retail dollar sales volume in the mass merchandiser industry in the 52-week period ended August 6, 2000, compared with 52% and 63%, respectively, in a similar period last year.

In fiscal 1998, the Registrant purchased Salubrius, Inc., a manufacturer of dog biscuits. Subsequently renamed Phoebe Products Company, it has conducted test market studies on its SMART SNACKS™ line of dog biscuits, jerky treats and rawhides. While market test results appear satisfactory, the Registrant cannot assure additional distribution of this product line extension due to the high costs associated with new product launches and the highly competitive nature of this market segment.

#### *Fluids Purification Products Group*

Fluids purification products include PURE-FLO® and PURE-FLO® Supreme bleaching clays and ULTRA-CLEAR® clarification aids. These products are supported by a team of technical sales and support representatives employed by the Company and the services of the Registrant's research and development group. The products are marketed in the United States and international markets.

PURE-FLO® bleaching clays, used in the bleaching of edible oils, remove impurities and color bodies from these oils. The primary customers for these products are refiners of food oils. ULTRA-CLEAR® clarification aids are used as filtration and purification mediums for jet fuel and other petroleum-based oils. These products adsorb unwanted moisture and other impurities, and are primarily sold to oil refiners.

The Registrant also produces PERFORM™ and SELECT™ bleaching clays, which offer performance advances to refiners. The PERFORM™ products are the next generation of bleaching clays, providing increased activity for hard-to-bleach oils. The SELECT™ line of products is used earlier in the process stream to remove a variety of impurities from edible oils. SELECT™ bleaching clays can also be used to replace the water wash step in the caustic refining of edible oils.

#### *Agricultural Products Group*

The Registrant produces and markets a wide range of granular and powdered mineral absorbent products that are used with crop protection chemicals, animal feed, fertilizers, other horticultural applications and

sports field and turf management. Products include AGSORB® agricultural chemical carriers and drying agents; FLO-FRE®, a highly absorbent microgranule flowability aid; PEL-UNITE® and CONDITION-ADE® pelleting aids used in the manufacture of animal feeds, TERRA GREEN® and SOILMASTER® soil conditioners and POULTRY GUARD™ litter amendments used in controlling ammonia levels in commercial poultry houses.

The AGSORB® carriers are used as mediums of distribution for crop protection chemicals, including herbicides, fungicides, insecticides, and fertilizers. AGSORB® customized carriers are designed to reduce dust and to increase accuracy of application. The Registrant's AGSORB® drying agent is used to prevent clogging in specialized farm machinery and enables farmers to evenly apply granular fertilizers and liquid pesticides to their fields in one application. The Registrant has also developed the AGSORB® product as a blending agent for fertilizers and chemicals used in the lawn and garden market. SOILMASTER® products include ball field maintenance and turf conditioner products.

Agricultural products are marketed in the United States by technical salesmen employed by the Company who sell to crop protection chemical manufacturers, feed producers and agricultural product distributors. The Registrant's principal customers for these products include the agricultural groups of Monsanto, DowElanco and Zeneca.

In October 1999 the Registrant acquired Pro's Choice, Inc., a marketer and distributor of sports field products. Previously, the Registrant had supplied Pro's Choice with specialty clay products for use in these markets. Products include SOILMASTER® Infield Conditioner, which improves drainage and prevents compaction on baseball infields and other surfaces, and SOILMASTER® Green Soil Conditioner, which improves oxygen, water and nutrient flow to the root zone of turf surfaces. The Registrant's principal customers for these products include professional baseball teams, colleges, municipalities and park districts.

#### *Industrial and Automotive Products*

Products for industrial applications include the Registrant's oil, grease and water sorbents, which are cost effective floor maintenance products that provide a nonslip and nonflammable surface for workers. These products are sold through a wide range of distribution channels and have achieved a high level of brand name recognition. The Registrant distributes clay-based sorbents sold in granular form and in other configurations such as pillows and socks. The Registrant also distributes non-clay sorbents including its OIL-DRI Industrial Pad and OIL-DRI Industrial Rug, which are made of needle-punched polypropylene.

The Registrant sells its industrial products through a distributor network that includes industrial, auto parts, safety, sanitary supply, chemical and paper distributors and environmental service companies. The Registrant supports the efforts of the industrial distributors with specialized divisional sales personnel.

The Registrant also produces for the consumer market OIL-DRI Automotive, a floor absorbent for home and garage use. This product is sold through automobile parts distributors and mass merchandisers.

#### *Transportation Services*

In the second quarter of fiscal 1998, the Registrant exited the transportation business and formed a strategic alliance with CRST International, Inc., which since that time has serviced the majority of the Registrant's over-the-road shipping requirements.

#### *Patents*

The Registrant has obtained or applied for patents for certain of its processes and products. These patents expire at various times, beginning in 1999. Patented processes and products are not material to the Registrant's overall business.

#### *Foreign*

SAULAR® cat litter manufactured and marketed by Favorite Products Company, Ltd. (d.b.a. Oil-Dri Canada), the Registrant's wholly owned Canadian subsidiary, is a leading cat litter brand sold in Canada.

Favorite Products Company, Ltd. also packages and markets the SAULAR® KAT-KIT™ disposable cat litter tray and litter. Certain of the products sold in Canada are blends of clay and synthetic sorbent materials.

The Registrant's wholly owned subsidiary in England, Oil-Dri, U.K., Ltd., packages clay granules produced by the Registrant's domestic manufacturing facilities and, for certain applications, blends a synthetic sorbent material which it manufactures locally. Oil-Dri, U.K., Ltd. markets these products, primarily in the United Kingdom, as an oil and grease absorbent and as a cat litter.

The Registrant's wholly owned subsidiary in Switzerland, Oil-Dri S.A., performs various management, sales and administrative functions for the Registrant and its foreign subsidiaries.

The Company's foreign operations are subject to the normal risks of doing business overseas, such as currency devaluations and fluctuations, restrictions on the transfer of funds and import/export duties. The Registrant's foreign subsidiaries to date have not been materially affected by these risks.

#### *Backlog; Seasonality*

At July 31, 2000 and 1999, the Registrant's backlog of orders was approximately \$2,913,000 and \$2,534,000, respectively. The Registrant does not consider its clay sorbent business, taken as a whole, to be seasonal to any material extent. However, certain business activities of certain customers of the Registrant (such as agricultural) are subject to such factors as crop acreage planted and product formulation cycles.

#### *Customers*

Sales to Wal-Mart Stores, Inc. accounted for approximately 20% of the Registrant's net sales for the fiscal year ended July 31, 2000. Sales to The Clorox Company accounted for approximately 9% of the Registrant's net sales for the fiscal year ended July 31, 2000. The Clorox Company and the Registrant are parties to a long-term supply contract. The loss of any other of the Registrant's customers would not have a materially adverse effect on the Registrant.

#### *Competition*

The Registrant has approximately six principal competitors in the United States, some of which have substantially greater financial resources than the Company, which compete with the Registrant in certain markets and with respect to certain products. Price, service and technical support, product quality and delivery are the principal methods of competition in the Registrant's markets and competition has historically been very vigorous. The Registrant believes that it can compete favorably in all of its present markets.

#### *Reserves*

The Registrant mines sorbent materials, consisting of either montmorillonite, attapulgite or diatomaceous earth on leased or owned land near its manufacturing facilities in Mississippi, Georgia, Illinois and Oregon, and on leased and owned land in Florida (see "Item 2—Properties" below). The Registrant estimates that its proven recoverable reserves of these sorbent materials aggregate approximately 489,118,000 tons. Based on its rate of consumption during the 2000 fiscal year, the Registrant considers its proven recoverable reserves adequate to supply the Registrant's needs for over 45 years. It is the Registrant's 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. The Registrant has a program of exploration for additional reserves and, although reserves have been acquired, the Registrant cannot assure that such additional reserves will continue to become available. The Registrant's use of these reserves will be subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. Also, requirements for environmental compliance may restrict exploration or use of lands that might otherwise be utilized as a source of reserves. During the fiscal year ended July 31, 2000, the Registrant utilized these reserves to produce substantially all of the sorbent minerals that it sold.

In 1997, the Registrant acquired rights to mineral reserves on approximately 5,907 acres in Nevada. This acreage is in addition to approximately 415 acres acquired in 1991 in Washoe County, Nevada. The Registrant estimates that there are over 300,000,000 tons of proven reserves of sorbent materials on the combined

acreage. Mining and processing these reserves requires the approval of federal, state and local agencies. The Registrant has received federal approval to mine these properties and is in the process of obtaining all other necessary state and local approvals. In the future, the Registrant hopes to develop facilities so as to use these reserves as a source of supply for its West Coast customers. However, there can be no assurance that this will be accomplished.

In 1998, mineral reserves on approximately 778 acres in Tennessee and 755 acres in Illinois were acquired in conjunction with the purchase of Oil-Dri, Mounds Production Company.

*Mining Operations*

The Registrant has conducted mining operations in Ripley, Mississippi since 1963; in Ochlocknee, Georgia since 1971; in Christmas Valley, Oregon since 1979; in Blue Mountain, Mississippi since 1989; and in Mounds, Illinois since 1998.

The Registrant’s raw materials are surface mined on a year-round basis, generally using large earth moving scrapers and bulldozers to remove overburden, and then loaded into dump trucks with backhoe or dragline equipment for movement to the processing facilities. The mining and hauling of the Registrant’s clay is performed by the Registrant and by independent contractors.

The Registrant’s current operating mines range in distance from immediately adjacent to several miles from its processing plants. Access to processing facilities from the mining areas is generally by private road, and in some instances public highways are utilized.

Each of the Registrant’s processing facilities maintains stockpiles of unprocessed clay of approximately one to three weeks production requirements.

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.

The Registrant employs a staff of geologists and mineral specialists who estimate and evaluate existing and potential reserves in terms of quality, quantity and availability.

The following schedule summarizes, for each of the Registrant’s manufacturing facilities, the net book value of land and other plant and equipment:

	<u>Land</u>	<u>Plant and Equipment</u>
	(in thousands)	
Ochlocknee, Georgia . . . . .	\$2,697	\$15,578
Ripley, Mississippi . . . . .	\$1,543	\$11,439
Mounds, Illinois . . . . .	\$ 325	\$ 8,461
Blue Mountain, Mississippi . . . . .	\$ 952	\$ 7,503
Christmas Valley, Oregon . . . . .	\$ 100	\$ 449

*Employees*

As of July 31, 2000, the Registrant employed 713 persons, 75 of whom were employed by the Registrant’s foreign subsidiaries. The Registrant’s corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 43 of the Registrant’s employees in the U.S. and approximately 19 of the Registrant’s employees in Canada are represented by labor unions, which have entered into separate collective bargaining agreements with the Company. Employee relations are considered satisfactory.



### *Environmental Compliance*

The Registrant's mining and manufacturing operations and facilities in Georgia, Mississippi, Oregon and Illinois are required to comply with state surface mining statutes and various federal, state and local statutes, regulations and ordinances which govern the discharge of materials, water and waste into the environment and restrict mining on "wetlands" or otherwise regulate the Registrant's operations. In recent years, environmental regulation has grown increasingly stringent, a trend which the Registrant expects will continue. The Registrant endeavors to stay in substantial compliance with applicable environmental controls and regulations and to work with regulators to correct any deficiency. As a result, expenditures relating to environmental compliance have increased over the years; however, these expenditures have not been material. The Registrant continues, and will continue, to incur costs in connection with reclaiming exhausted mining sites. The costs of reclamation have not had a material effect on its mining costs. These costs are treated as part of the Registrant's mining expense.

In addition to the environmental requirements relating to mining and manufacturing operations and facilities, there is increasing federal and state legislation and regulation with respect to the labeling, use, and disposal after use, of various of the Registrant's products. The Registrant endeavors to stay in substantial compliance with that legislation and regulation and to assist its customers in that compliance.

The Registrant cannot assure that, despite its best efforts, it will always be in compliance with environmental legislation and regulations or with requirements regarding the labeling, use, and disposal after use, of its products; nor can it assure that from time to time enforcement of such requirements will not have an adverse impact on its business.

### *Energy*

The Registrant uses coal, natural gas and recycled fuel oil as permitted for energy sources in the processing of its clay products. In prior years, the Registrant has switched from natural gas to other energy sources during certain months due to seasonal unavailability and the higher cost of natural gas relative to other fuels.

### *Research and Development*

At the Registrant's research facility, the research and development staff develops new products and applications and improves existing products. The staff and various consultants consist of geologists, mineralogists and chemists. In the past several years, the Registrant's research efforts have resulted in a number of new sorbent products and processes including PURE-FLO® Supreme, PURE-FLO® B80, B81, PERFORM™, SELECT™ and POULTRY GUARD™ absorbents, and CAT'S PRIDE® Scoopable, LASTING PRIDE®, DUST STOPPER® and SCOOP 'N FLUSH® cat litters. The technical center produces prototype samples and tests new products for customer trial and evaluation.

The Registrant spent approximately \$1,951,000, \$2,110,000 and \$2,376,000 during its fiscal years ended July 31, 2000, 1999 and 1998, respectively, for research and development. None of such research and development was customer sponsored, and all research and development costs are expensed in the year in which incurred.

## Item 2. Properties

The Registrant's properties are generally described below:

<b>Land Holdings &amp; Mineral Reserves</b>							
	<u>Land Owned</u>	<u>Land Leased</u>	<u>Land Unpatented Claims</u>	<u>Total</u>	<u>Proven Reserves</u>	<u>Probable Reserves</u>	<u>Total</u>
	(acres)	(acres)	(acres)	(acres)	(000s of tons)	(000s of tons)	(000s of tons)
Florida .....	537	446	—	983	4,512	1,092	5,604
Georgia .....	1,944	1,739	—	3,683	43,821	11,174	54,995
Illinois .....	161	598	—	759	8,334	6,000	14,334
Mississippi .....	2,384	1,331	—	3,715	121,282	111,483	232,765
Nevada .....	495	—	5,907	6,402	306,830	248,874	555,704
Oregon .....	400	—	220	620	89	311	400
Tennessee .....	778	—	—	778	4,250	4,250	8,500
	<u>6,699</u>	<u>4,114</u>	<u>6,127</u>	<u>16,940</u>	<u>489,118</u>	<u>383,184</u>	<u>872,302</u>

See "Item 1. Business—Reserves"

There are no mortgages on the property owned by the Registrant. The Mississippi, Georgia, Oregon, Tennessee, Nevada, Florida and Illinois properties are primarily mineral in nature. Parcels of such land are also sites of manufacturing facilities operated by the Registrant. The Illinois land also includes the site of the Registrant's research and development facility. The Registrant owns approximately one acre of land in Laval, Quebec, Canada, which is the site of the processing and packaging facility for the Registrant's Canadian subsidiary.

The Registrant's mining operations are conducted on leased or owned land and, in Oregon, unpatented mining claims. The Georgia, Illinois, Florida and Mississippi mining leases, with expiration dates ranging from 2000 to 2053, no one of which is material, generally require that the Registrant pay a minimum monthly rental to continue the lease term. This rental payment is applied against a royalty related to the number of unprocessed, or in some cases processed, tons of mineral extracted from the leased property.

Of the Registrant's total reserves, certain claims in Nevada and Oregon are unpatented mining claims leased by the Registrant, on which the Registrant has the right to conduct mining activities. The validity of title to unpatented mining claims is dependent upon numerous factual matters. The Registrant believes the unpatented mining claims it leases are in compliance with all applicable federal, state and local mining laws, rules and regulations. In fiscal 2000, the Bureau of Land Management determined that the Registrant's claim on certain Nevada properties are locatable in nature. This ruling has the effect of perfecting the Registrant's right to mine these claims. In the past, members of Congress and the executive branch of the federal government have proposed amendments to existing federal mining laws. These amendments 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 the Registrant's unpatented claims may become uneconomic. The Registrant cannot predict the form that any such amendments might take or whether or when such amendments might be adopted.

The Registrant operates manufacturing facilities at Ripley, Mississippi; Ochlocknee, Georgia; Christmas Valley, Oregon; Blue Mountain, Mississippi and Mounds, Illinois; production and packaging plants at Laval, Quebec, Canada and Wisbech, United Kingdom; a non-clay sorbents processing and warehousing facility in Alpharetta, Georgia; and a dog biscuit manufacturing plant in Kiel, Wisconsin. The Registrant's facilities at Ripley, Mississippi; Ochlocknee, Georgia; Christmas Valley, Oregon; Mounds, Illinois; Alpharetta, Georgia; Kiel, Wisconsin; Laval, Quebec, Canada and Wisbech, United Kingdom are wholly owned by the Registrant and the Registrant's facility at Blue Mountain, Mississippi is owned in part by the Registrant, with the balance leased as hereinafter described. The Registrant is a party to leases that relate to certain plant acquisition and expansion projects at the Registrant's facility at Blue Mountain, Mississippi. The Blue Mountain, Mississippi

lease was entered into with the Town of Blue Mountain, Mississippi in 1988 in connection with the issuance by the Town of \$7,500,000 in aggregate principal amount of industrial revenue bonds (\$5,000,000 of which has been subsequently retired), full payment of which is guaranteed by the Registrant. Upon expiration of the leases in 2008, a subsidiary of the Registrant has the right to purchase the leased property for \$100 upon full payment of the bonds. The land on which the manufacturing facility at Wisbech, United Kingdom is located is leased pursuant to a long-term lease arrangement with the Port Authority of Wisbech which expires in 2032. The facilities in Alpharetta, Georgia and Kiel, Wisconsin are leased.

All of the Registrant's domestic manufacturing facilities, whether owned or leased, consist of related steel frame, sheet steel covered or brick buildings of various heights, with concrete floors and storage tanks. The buildings occupy approximately 208,000 square feet at Ripley, Mississippi; 247,000 square feet at Ochlocknee, Georgia; 129,000 square feet at Mounds, Illinois; 18,000 square feet at Christmas Valley, Oregon; 26,000 square feet at Alpharetta, Georgia; 16,000 square feet at Kiel, Wisconsin and 140,000 square feet at Blue Mountain, Mississippi. The Registrant maintains railroad siding facilities near the Ripley, Mississippi; Ochlocknee, Georgia; Blue Mountain, Mississippi; Mounds, Illinois and Laval, Quebec, Canada manufacturing facilities. Equipment at all facilities is in good condition, well maintained and adequate for current processing levels.

All of the Registrant's foreign facilities are owned and consist of related steel frame, sheet steel covered or brick buildings of various heights, with concrete floors and storage tanks. The buildings occupy 22,500 square feet at Laval, Quebec, Canada and 66,850 square feet at Wisbech, United Kingdom.

The Registrant's research and development facility is located on owned land in Vernon Hills, Illinois and consists of brick buildings of approximately 19,100 square feet, including a pilot plant facility.

The Registrant's principal office, consisting of approximately 20,000 square feet in Chicago, Illinois, is presently occupied under a lease expiring on June 30, 2008.

### **Item 3. Legal Proceedings**

There are no material pending legal proceedings.

### **Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 401(b) of Regulation S-K. Executive Officers of the Registrant**

The following table gives certain information with respect to the Executive Officers of the Registrant.

<u>Name<sup>1</sup></u>	<u>Principal Occupation For Last Five Years</u>	<u>Age</u>
Richard M. Jaffee . . . . .	Chairman of the Board of the Registrant; President from 1960 to June 1995; Chief Executive Officer from 1962 until 1997.	64
Daniel S. Jaffee <sup>2</sup> . . . . .	President and Chief Executive Officer of the Registrant; President and Chief Operating Officer from June 1995 until August 1997; Chief Executive Officer of Favorite Products Company, Ltd., a subsidiary of the Registrant since 1990; Chief Financial Officer of the Registrant from 1990 to 1995; Group Vice-President, Consumer Products of the Registrant from 1994 to 1995.	36
Richard V. Hardin <sup>3</sup> . . . . .	Group Vice-President, Technology, of the Registrant.	61
Eugene W. Kiesel . . . . .	Vice-President & General Manager, Global Fluids Purification Group of the Registrant since October 1997; Vice-President of Radian International, LLC, a subsidiary of Dow Chemical Company from July 1996 to October 1997; General Manager of ACS, a division of Dow Chemical Company from November 1993 to July 1996.	43
Wade R. Bradley . . . . .	Vice-President, Global Consumer Products of the Registrant since June 2000; Vice-President, Industrial & Automotive Products Group from December 1998 to June 2000; General Manager, Industrial & Automotive Products Group from June 1995 to December 1998.	39
Thomas F. Cofsky <sup>3</sup> . . . . .	Vice-President of Manufacturing and Logistics of the Registrant since June 1999; Vice-President of Logistics, Quality & Service from February 1996 to June 1999; General Manager, Logistics, Quality & Service from February 1995 to February 1996.	39
Jeffrey M. Libert . . . . .	Vice-President & Chief Financial Officer of the Registrant since April 2000; Vice-President of Corporate Development and Planning from June 1998 to April 2000; Manager of Production Planning from August 1995 to June 1998; Plant Controller and Operations Associate from August 1993 to August 1995.	33

The term of each executive officer expires at the 2000 Annual Meeting of the Stockholders and when his successor is elected and qualified.

<sup>1</sup> Of the persons in this table, only Richard M. Jaffee and Daniel S. Jaffee are directors.

<sup>2</sup> Daniel S. Jaffee is Richard M. Jaffee's son.

<sup>3</sup> Richard V. Hardin and Thomas F. Cofsky are Richard M. Jaffee's sons-in-law.

## PART II

### **Item 5. Market for the Registrant's Common Equity and Related Security Holder Matters**

Information concerning stock prices and dividends with regard to the Common Stock of the Registrant, which is traded on the New York Stock Exchange, and information concerning dividends with regard to the Class B Stock of the Registrant, for which there is no established public trading market, is contained in Note 14 of the "Notes to Consolidated Financial Statements," incorporated herein by reference. No shares of Class A common stock are outstanding. The Registrant's ability to pay dividends is limited by the Registrant's Credit Agreement with Harris Trust and Savings Bank dated January 29, 1999. See Note 5 of "Notes to Consolidated Financial Statements," incorporated herein by reference. Information concerning a private placement of \$25,000,000 in principal amount of notes in April 1998 is incorporated herein by reference to Note 5 of the "Notes to the Consolidated Financial Statements." The notes were sold in reliance on the exemption from registration under the Securities Act of 1933 contained in Section 4(2) thereof, based on the fact that they were privately sold in their entirety to two financial institutions. Information with respect to holders of Common Stock and Class B Stock is contained in Note 7 of the "Notes to Consolidated Financial Statements" incorporated herein by reference.

**Item 6. Selected Financial Data**

**Ten Year Summary of Financial Data**

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in thousands except for per share amounts)			
<b>Summary of Operations</b>				
Net Sales .....	<b>\$175,119</b>	\$173,985	\$160,252	\$156,616
Cost of Sales .....	<b>125,184</b>	119,126	110,096	108,687
Gross Profit .....	<b>49,935</b>	54,859	50,156	47,929
Selling, General and Administrative Expenses .....	<b>42,942</b>	43,108	38,598	37,260
Restructuring and Special Charges .....	<b>1,239</b>	—	3,129	—
Income from Operations .....	<b>5,754</b>	11,751	8,429	10,669
<b>Other Income (Expense)</b>				
Interest Income .....	<b>206</b>	480	491	637
Interest Expense .....	<b>(3,185)</b>	(3,185)	(2,049)	(1,775)
Foreign Exchange (Losses) Gains .....	<b>(173)</b>	(124)	(146)	—
Other, Net .....	<b>446</b>	1,114	(119)	(17)
Total Other Expense, Net .....	<b>(2,706)</b>	(1,715)	(1,823)	(1,155)
Income before Income Taxes .....	<b>3,048</b>	10,036	6,606	9,514
Income Taxes .....	<b>821</b>	2,860	1,883	2,721
Net Income .....	<b>\$ 2,227</b>	\$ 7,176	\$ 4,723	\$ 6,793
<b>Average Shares Outstanding</b>				
Basic .....	<b>5,647</b>	5,827	6,125	6,596
Dilutive .....	<b>5,677</b>	5,996	6,165	6,599
<b>Net Income per Share</b>				
Basic .....	<b>\$ 0.39</b>	\$ 1.23	\$ 0.77	\$ 1.03
Dilutive .....	<b>\$ 0.39</b>	\$ 1.20	\$ 0.77	\$ 1.03
<b>Important Highlights</b>				
Total Assets .....	<b>\$132,844</b>	\$133,750	\$134,215	\$114,558
Long-Term Debt .....	<b>\$ 39,434</b>	\$ 38,150	\$ 39,976	\$ 17,052
Working Capital .....	<b>\$ 38,875</b>	\$ 37,141	\$ 36,283	\$ 31,165
Working Capital Ratio .....	<b>3.6</b>	3.3	3.1	3.0
Book Value per Share .....	<b>\$ 13.01</b>	\$ 13.00	\$ 12.15	\$ 12.03
Dividends Declared .....	<b>\$ 1,900</b>	\$ 1,904	\$ 1,808	\$ 1,936
Capital Expenditures .....	<b>\$ 6,001</b>	\$ 8,495	\$ 6,496	\$ 5,395
Depreciation and Amortization .....	<b>\$ 9,099</b>	\$ 8,497	\$ 7,832	\$ 7,587
Operating Cash Flows, less Capital Expenditures .....	<b>\$ (33)</b>	\$ 1,165	\$ 2,330	\$ 8,349
Long-Term Debt to Total Capital .....	<b>35.1%</b>	33.9%	35.8%	18.1%
Net Income as a Percent of Net Sales .....	<b>1.3%</b>	4.1%	3.0%	4.3%
Return on Average Stockholder's Equity .....	<b>3.0%</b>	9.8%	6.3%	8.8%
Gross Profit as a Percent of Net Sales .....	<b>28.5%</b>	31.5%	31.3%	30.6%
Operating Expenses as a Percent of Net Sales .....	<b>25.2%</b>	24.8%	26.0%	23.8%

Year Ended July 31

<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
\$153,787	\$152,899	\$147,147	\$140,866	\$124,585	\$106,054
<u>107,730</u>	<u>108,268</u>	<u>102,457</u>	<u>97,396</u>	<u>85,116</u>	<u>74,370</u>
46,057	44,631	44,690	43,470	39,469	31,684
39,153	31,921	30,394	29,553	28,967	21,778
921	—	—	—	—	—
<u>5,983</u>	<u>12,710</u>	<u>14,296</u>	<u>13,917</u>	<u>10,502</u>	<u>9,906</u>
587	448	441	452	515	602
(1,917)	(1,921)	(1,752)	(1,729)	(1,884)	(1,363)
(7)	(5)	3	(88)	63	(23)
<u>137</u>	<u>(84)</u>	<u>171</u>	<u>(298)</u>	<u>15</u>	<u>50</u>
<u>(1,200)</u>	<u>(1,562)</u>	<u>(1,137)</u>	<u>(1,663)</u>	<u>(1,291)</u>	<u>(734)</u>
4,783	11,148	13,159	12,254	9,211	9,172
<u>1,409</u>	<u>3,145</u>	<u>3,307</u>	<u>2,834</u>	<u>2,110</u>	<u>2,092</u>
<u>\$ 3,374</u>	<u>\$ 8,003</u>	<u>\$ 9,852</u>	<u>\$ 9,420</u>	<u>\$ 7,101</u>	<u>\$ 7,080</u>
6,806	6,932	6,990	6,995	6,994	7,004
6,807	6,936	7,011	7,031	7,026	7,055
\$ 0.50	\$ 1.15	\$ 1.41	\$ 1.35	\$ 1.02	\$ 1.01
\$ 0.50	\$ 1.15	\$ 1.41	\$ 1.34	\$ 1.01	\$ 1.00
\$117,693	\$116,988	\$112,267	\$102,117	\$ 95,018	\$ 89,394
\$ 18,978	\$ 20,422	\$ 21,521	\$ 17,766	\$ 18,831	\$ 20,176
\$ 30,399	\$ 33,074	\$ 29,337	\$ 26,043	\$ 24,359	\$ 24,763
2.7	3.1	3.0	2.7	2.8	3.4
\$ 11.46	\$ 11.35	\$ 10.51	\$ 9.50	\$ 8.66	\$ 7.93
\$ 2,022	\$ 2,047	\$ 1,807	\$ 1,679	\$ 1,548	\$ 1,422
\$ 7,184	\$ 7,032	\$ 13,559	\$ 9,158	\$ 8,040	\$ 10,416
\$ 7,926	\$ 7,808	\$ 6,798	\$ 5,835	\$ 5,407	\$ 4,831
\$ 6,869	\$ 5,285	\$ (3,734)	\$ 5,080	\$ 645	\$ (1,310)
19.7%	20.7%	22.8%	21.1%	24.0%	26.6%
2.2%	5.2%	6.7%	6.7%	5.7%	6.7%
4.3%	10.6%	14.1%	14.9%	12.3%	13.4%
29.9%	29.2%	30.4%	30.9%	31.7%	29.9%
26.1%	20.9%	20.7%	21.0%	23.3%	20.5%

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### *Results of Operations*

#### *Fiscal 2000 Compared to Fiscal 1999*

Consolidated net sales for the year ended July 31, 2000, were \$175,119,000, an increase of 0.7% over net sales of \$173,985,000 in fiscal 1999. This increase was due to increased sales in the Consumer Products and Industrial and Automotive Products segments, partially offset by decreased sales in the Agricultural Products and Fluids Purification Products segments. Basic and diluted net income per share was \$0.39 for fiscal 2000, versus basic net income per share of \$1.23 and diluted net income per share of \$1.20 in fiscal 1999. This decrease was due to a restructuring charge recorded in the second quarter of fiscal 2000, additional manufacturing costs associated with the start-up of the Church & Dwight Co., Inc. supply agreement, significant increases in energy costs used in the Company's manufacturing processes, increased costs of packaging and distribution, unfavorable foreign exchange rate fluctuations and a decline in demand for agricultural carriers. The restructuring charge, which covered severance costs for certain eliminated positions (\$604,000) and the write-off of non-performing assets (\$635,000). This charge reduced income before taxes by \$1,239,000, net income by \$879,000 and basic and fully diluted net income per share by \$0.16 and \$0.15 respectively for the year ended July 31, 2000.

Net sales for the Consumer Products segment for fiscal 2000 were \$115,614,000, an increase of 0.8% over net sales of \$114,704,000 in fiscal 1999. Increased sales of co-packaged cat litter, primarily FRESH STEP® manufactured for the Clorox Company and Arm & Hammer SUPER STOP™ brand manufactured for Church & Dwight Co., Inc., offset reduced sales of branded products and the reduced grocery distribution for paper cat litter products. Consumer Products' operating income declined 18.0% from \$17,331,000 in fiscal 1999 to \$14,212,000 in fiscal 2000. This decline was due to significant increases in energy costs used in the Company's manufacturing processes, packaging costs, distribution costs, inefficient trade spending, start-up costs of the Church & Dwight supply agreement and unfavorable sales mix relative to fiscal 1999.

Net sales of the Fluids Purification Products segment for fiscal 2000 were \$22,669,000, a decrease of 1.7% from net sales of \$23,071,000 in fiscal 1999. While North American and Latin American sales of PURE FLO® bleaching clays and ULTRA CLEAR® clarification aids increased over fiscal 1999 levels, European sales, specifically by the Company's United Kingdom subsidiary, decreased. Export sales were also hampered by the relative strength of the U.S. dollar versus other currencies, particularly the Euro. Operating income for the Fluids Purification Products segment decreased 25.4% from \$5,641,000 in fiscal 1999 to \$4,209,000 in fiscal 2000. This decrease was due to higher manufacturing costs, competitive activities leading to defensive pricing strategies and unfavorable exchange rate fluctuations.

Net sales of the Agricultural Products segment for fiscal 2000 were \$18,199,000, a decrease of 4.8% from net sales of \$19,119,000 in fiscal 1999. This decline is due to reduced crop protection product formulations by the Company's agricultural chemical customers resulting from a depressed farm economy. Agricultural Products operating income decreased 45.6% from \$3,464,000 in fiscal 1999 to \$1,883,000 in fiscal 2000, due to the unfavorable sales mix, increased manufacturing costs and railcar expenses.

Net sales of the Industrial and Automotive Products segment for fiscal year 2000 were \$18,637,000, an increase of 9.0% from net sales of \$17,091,000 in fiscal 1999 due to increased sales volume of clay-based industrial and automotive products and price increases instituted during the year. Industrial and Automotive Products' operating income increased 28.7% from \$783,000 in fiscal 1999 to \$1,008,000 in fiscal 2000 due to the increase in sales discussed above.

Consolidated gross profit as a percentage of net sales for fiscal 2000 decreased to 28.5% from 31.5% in fiscal 1999. This decline was due to an unfavorable sales mix in the Consumer Products and Agricultural Products segments, defensive pricing strategies in the overseas markets of the Fluids Purification Products segment, reduced export profitability due to unfavorable exchange rate fluctuation, startup costs associated with the Church & Dwight Co., Inc. agreement as well as higher manufacturing costs in the form of increased energy, packaging and distribution costs.



Operating expenses as a percentage of net sales increased to 25.2% for fiscal 2000 from 24.8% in fiscal 1999. Excluding the restructuring charge recorded in the second quarter, operating expenses as a percentage of net sales were 24.5%.

Interest expense was unchanged in dollar terms from fiscal 1999 to fiscal 2000. Reductions in notes payable from scheduled debt service was offset by line of credit draws during the year. At July 31, 2000, outstanding borrowings against the Company's revolving credit agreements was \$3,020,000.

Interest income declined \$274,000 from fiscal 1999 due to lower levels of funds available for investment.

The Company's effective tax rate was 26.9% of income before tax in fiscal 2000 and 28.5% in fiscal 1999. The reduction in the rate was due to current year net operating losses carried back to prior years, resulting in income tax refunds receivable.

Total assets of the Company decreased \$906,000 or 0.7% during the year ended July 31, 2000. Current assets increased slightly from fiscal 1999 year end balances primarily due to decreased cash and cash equivalents and accounts receivable balances, offset by increases in inventories, income taxes receivable and prepaid expenses. Property, plant and equipment, net of accumulated depreciation, decreased \$3,236,000 during the year as depreciation expense exceeded capital expenditures.

Total liabilities increased \$637,000 or 1.1% during the year due primarily to increased noncurrent notes payable balances, partially offset by decreased accrued expenses and deferred compensation. Current liabilities decreased \$855,000 or 5.4% from July 31, 1999 balances, due to decreases in accrued salary, wages and commissions and current maturities of notes payable.

### *Expectations*

The Company anticipates net sales for fiscal 2001 will be higher than the net sales in fiscal 2000. Sales of branded cat box absorbents are expected to be flat during the year consistent with projected sales in the overall category. However, profitability of branded cat box absorbents is expected to increase moderately due to improved spending controls. Sales of contract manufactured and private label litters are expected to increase moderately. Within the agricultural products segment, sales of agricultural carriers are expected to be flat due to the slow agricultural economy. Moderate sales growth is expected from market growth and increased market share of our poultry litter and sports turf products. Sales of the Company's fluid purification products and industrial and automotive products are expected to increase moderately in fiscal 2001.

### *Liquidity and Capital Resources*

The current ratio increased to 3.6 at July 31, 2000 from 3.3 at July 31, 1999. Working capital increased \$1,734,000 during fiscal 2000 to \$38,875,000. Cash provided by operations continues to be the Company's primary source of funds to finance ordinary investing and financing activities. During the year, the balances of cash, cash equivalents and investment securities decreased \$2,980,000. Cash provided by operating activities of \$5,956,000, cash on hand and line of credit draws were used to fund capital expenditures (\$6,001,000), principal payments on long term debt (\$2,226,000), dividend payments (\$1,911,000), and purchases of the Company's common stock (\$1,751,000). Total cash and investment balances held by the Company's foreign subsidiaries at July 31, 2000 and July 31, 1999 were \$2,366,000 and \$2,692,000, respectively.

The Company believes that cash on hand, cash flow from operations and borrowing capability under its committed credit facility are adequate to fund the Company's cash requirements for fiscal 2001. Should the Company undertake strategic acquisitions requiring funds in excess of its internally generated cash flow, it might be required to incur additional debt.

### *Results of Operations*

#### *Fiscal 1999 Compared to Fiscal 1998*

Consolidated net sales for the year ended July 31, 1999, were \$173,985,000, an increase of 8.6% over net sales of \$160,252,000 in fiscal 1998. Excluding the \$2,372,000 of fiscal 1998 sales from the transportation business, which was divested last year, sales increased 10.2% in fiscal 1999. Net income for fiscal 1999 was

\$7,176,000, an increase of 51.9% from \$4,723,000 earned in fiscal 1998. Basic net income per share for fiscal 1999 was \$1.23 and diluted net income per share was \$1.20, versus \$0.77 per share (basic and diluted) earned in fiscal 1998. A significant portion of the year-to-year increase in net income and net income per share was due to a special charge recorded in the second quarter of fiscal 1998 to cover the costs of exiting the transportation business and writing off certain non-performing assets. This charge reduced pre-tax income by \$3,129,000, net income by \$2,237,000 and net income per share by \$0.36 for the year ended July 31, 1998.

Net sales of the Consumer Products segment for fiscal 1999 were \$114,704,000, an increase of 12.7% over net sales of \$101,766,000 in fiscal 1998. This growth was primarily due to incremental sales from the introduction of SCOOP 'N FLUSH® and DUST STOPPER® paper litters and the acquisition of Oil-Dri, Mounds Production Company, partially offset by the loss of sales to Sam's Club, which in fiscal 1998 discontinued carrying the Company's cat litter products. Consumer Products' operating income declined 3.9% from \$18,034,000 in fiscal 1998 to \$17,331,000 in fiscal 1999. This decline was due to nonrecurring development, marketing and slotting costs related to the launch of the paper litters in fiscal 1999.

Net sales of the Fluids Purification Products segment for fiscal 1999 were \$23,071,000, an increase of 8.1% over net sales of \$21,337,000 in fiscal 1998. Sales of ULTRA-CLEAR® clarification aids grew in fiscal 1999, and demand for PURE-FLO® was particularly strong in the United Kingdom. Fluids Purification Products' operating income increased 27.8% from \$4,413,000 in fiscal 1998 to \$5,641,000 in fiscal 1999 due to productivity improvements and favorable changes in sales mix.

Net sales of the Agricultural Products segment for fiscal 1999 were \$19,119,000, a decrease of 1.5% from net sales of \$19,403,000 in fiscal 1998. This overall decline is due to sharply reduced demand for agricultural carriers as a result of a depressed farm economy and the growth of biotechnology products. Agricultural Products' operating income increased 7.4% from \$3,225,000 in fiscal 1998 to \$3,464,000 in fiscal 1999 due to a decrease in advertising expenditures.

Net sales of the Industrial and Automotive Products segment for fiscal 1999 were \$17,091,000, an increase of 11.2% from net sales of \$15,374,000 in fiscal 1998 due to incremental sales from last year's acquisition of Oil-Dri, Mounds Production Company. Industrial and Automotive Products' operating income increased 26.7% from \$618,000 in fiscal 1998 to \$783,000 in fiscal 1999, primarily as a result of decreased advertising expenditures.

Consolidated gross profit as a percentage of net sales for fiscal 1999 increased to 31.5% from 31.3% in fiscal 1998. Changes in sales mix, a companywide effort to reduce costs and exiting the transportation business contributed to this increase.

Operating expenses as a percentage of net sales decreased to 24.8% for fiscal 1999 from 26.0% in fiscal 1998. This decrease is primarily due to a pre-tax special charge of \$3,129,000 recorded in the second quarter of fiscal 1998 for the cost of exiting the transportation business and writing off certain non-performing assets, partially offset by nonrecurring development, marketing and slotting costs related to the launch of the paper litters in fiscal 1999.

Interest expense increased \$1,136,000 while interest income decreased \$11,000. The higher interest expense is primarily due to the fixed rate financing secured during the third quarter of fiscal 1998 which was used to fund the purchase of Oil-Dri, Mounds Production Company, repay draws against the Company's line of credit and for general working capital purposes.

The Company's effective tax rate was 28.5% of pre-tax income in fiscal 1999 and fiscal 1998.

Total assets of the Company decreased \$465,000 or 0.3% during the year ended July 31, 1999. Current assets decreased \$529,000 or 1.0% from fiscal 1998 year-end balances primarily due to decreased cash and cash equivalents, partially offset by increases in inventory, prepaid expenses and accounts receivable levels. Property, plant and equipment, net of accumulated depreciation, decreased \$37,000 during the year as depreciation expense essentially offset new capital expenditures.

Total liabilities decreased \$3,164,000 or 5.1% during the year due primarily to decreases in accrued expenses and in notes payable, partially offset by an increase in accounts payable. Current liabilities decreased

\$1,387,000 or 8.0% from July 31, 1998 balances, due to decreases in accrued expenses, partially offset by increases in accounts payable and in the current maturities of notes payable.

#### *Foreign Operations*

Net sales by the Company's foreign subsidiaries during fiscal 2000 were \$13,394,000 or 7.6% of total Company sales. This represents a decrease of 7.6% from fiscal 1999 in which foreign subsidiary sales were \$14,501,000 or 8.3% of total Company sales. This decrease is due to lower sales of fluids purification products in the United Kingdom. Net loss of the foreign subsidiaries for fiscal 2000 was \$27,000, a decrease of 104.6% from net income of \$590,000 earned in fiscal 1999. This decrease was primarily due to unfavorable changes in sales mix and the loss of a key customer in the United Kingdom. Identifiable assets of the Company's foreign subsidiaries as of July 31, 2000 were \$10,083,000, a decrease of \$981,000 from \$11,064,000 as of July 31, 1999.

Net sales by the Company's foreign subsidiaries during fiscal 1999 were \$14,501,000 or 8.3% of total Company sales. This represents an increase of 3.7% from fiscal 1998 in which foreign subsidiary sales were \$13,987,000 or 8.7% of total Company sales. The increase is due to higher demand for fluids purification products in the United Kingdom. Net income of the foreign subsidiaries for fiscal 1999 was \$590,000, a decrease of 6.9% from \$634,000 earned in fiscal 1998. This decrease was primarily due to unfavorable changes in sales mix. Identifiable assets of the Company's foreign subsidiaries as of July 31, 1999 were \$11,064,000, a decrease of \$696,000 from \$11,760,000 as of July 31, 1998. The decrease is primarily due to lower inventories and cash and cash equivalents.

#### *Year 2000*

The Year 2000 ("Y2K") issue was a result of computer programs using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems would have been unable to interpret dates beyond 1999, which could have caused a system failure or application errors, leading to disruptions in operations.

As of the date of this report, the Company has not experienced any material problems related to Y2K, nor has the Company received any significant complaints regarding Y2K issues related to its products. Also, the Company is not aware of any significant Y2K issues affecting the Company's major customers or suppliers.

#### *Forward-Looking Statements*

Certain statements in this report, including, but not limited to, those under the heading "Expectations" and those statements elsewhere in this report that use forward-looking terminology such as "expect," "would," "could," "should," "estimates," and "believes" are "forward-looking statements" within the meaning of that term in the Securities Exchange Act of 1934, as amended. Actual results may differ materially from those reflected in these forward-looking statements, due primarily to continued vigorous competition in the grocery, mass merchandiser and club markets, the level of success of new products, and the cost of product introductions and promotions in the consumer market. These forward-looking statements also involve the risk of changes in market conditions in the overall economy and, for the fluids purification and agricultural markets, in planting activity, crop quality, and overall agricultural demand, including export demand and foreign exchange rate fluctuations. Other factors affecting these forward-looking statements may be detailed from time to time in reports filed with the Securities and Exchange Commission.

#### **Item 7a. Quantitative and Qualitative Disclosures about Market Risk**

The Company did not have any derivative financial instruments as of July 31, 2000. However, the Company is exposed to interest rate risk. The Company employs policies and procedures to manage its exposure to changes in the market risk of its cash equivalents and short-term investments. The Company believes that the market risk arising from holdings of its financial instruments is not material.

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED BALANCE SHEETS

	July 31,	
	<u>2000</u>	<u>1999</u>
	(in thousands of dollars)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents .....	\$ 1,388	\$ 4,362
Investment securities .....	1,219	1,225
Accounts receivable, less allowance of \$836 in 2000 and \$358 in 1999 .....	24,438	25,365
Inventories .....	16,928	15,165
Income taxes receivable .....	2,267	—
Prepaid expenses .....	7,719	6,963
Total Current Assets .....	<u>53,959</u>	<u>53,080</u>
<b>Property, Plant and Equipment, at Cost</b>		
Buildings and leasehold improvements .....	20,769	20,391
Machinery and equipment .....	88,737	87,536
Office furniture and equipment .....	9,532	8,658
Vehicles .....	5,166	5,118
	<u>124,204</u>	<u>121,703</u>
Less accumulated depreciation and amortization .....	(76,033)	(69,631)
	48,171	52,072
Construction in progress .....	3,722	3,199
Land .....	7,719	7,577
Total Property, Plant and Equipment, Net .....	<u>59,612</u>	<u>62,848</u>
<b>Other Assets</b>		
Goodwill and intangibles (Net of accumulated amortization of \$2,664 in 2000 and \$2,128 in 1999) .....	10,324	9,780
Deferred income taxes .....	2,606	3,045
Other .....	6,343	4,997
Total Other Assets .....	<u>19,273</u>	<u>17,822</u>
Total Assets .....	<u>\$132,844</u>	<u>\$133,750</u>

	July 31,	
	<u>2000</u>	<u>1999</u>
	(in thousands of dollars)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable .....	\$ 1,750	\$ 2,226
Accounts payable .....	4,804	4,842
Dividends payable .....	473	484
Accrued expenses		
Salaries, wages and commissions .....	2,111	3,016
Trade promotions and advertising .....	1,159	1,166
Freight .....	1,385	1,119
Other .....	<u>3,402</u>	<u>3,086</u>
Total Current Liabilities .....	<u>15,084</u>	<u>15,939</u>
<b>Noncurrent Liabilities</b>		
Notes payable .....	39,434	38,150
Deferred compensation .....	3,112	3,206
Other .....	<u>2,250</u>	<u>1,948</u>
Total Noncurrent Liabilities .....	<u>44,796</u>	<u>43,304</u>
Total Liabilities .....	<u>59,880</u>	<u>59,243</u>
<b>Stockholders' Equity</b>		
Common Stock, par value \$.10 per share, issued 5,470,435 shares in 2000 and 5,470,252 shares in 1999 .....	547	547
Class B Stock, par value \$.10 per share, issued 1,765,083 shares in 2000 and 1,765,266 shares in 1999 .....	177	177
Additional paid-in capital .....	7,698	7,702
Retained earnings .....	90,757	90,430
Restricted unearned stock compensation .....	(10)	(9)
Cumulative translation adjustments .....	<u>(1,310)</u>	<u>(1,159)</u>
	97,859	97,688
Less treasury stock, at cost (1,283,769 Common shares and 342,241 Class B shares in 2000 and 1,163,764 Common shares and 342,241 Class B shares in 1999) .....	<u>(24,895)</u>	<u>(23,181)</u>
Total Stockholders' Equity .....	<u>72,964</u>	<u>74,507</u>
Total Liabilities and Stockholders' Equity .....	<u>\$132,844</u>	<u>\$133,750</u>

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

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended July 31,		
	2000	1999	1998
	(in thousands except for per share data)		
<b>Net Sales</b> .....	<b>\$175,119</b>	\$173,985	\$160,252
<b>Cost of Sales</b> .....	<b>125,184</b>	119,126	110,096
<b>Gross Profit</b> .....	<b>49,935</b>	54,859	50,156
<b>Selling, General and Administrative Expenses</b> .....	<b>42,942</b>	43,108	38,598
<b>Restructuring and Special Charges</b> .....	<b>1,239</b>	—	3,129
<b>Income from Operations</b> .....	<b>5,754</b>	11,751	8,429
<b>Other Income (Expense)</b>			
Interest income .....	206	480	491
Interest expense .....	(3,185)	(3,185)	(2,049)
Foreign exchange losses .....	(173)	(124)	(146)
Other investment income .....	254	939	—
Other, net .....	192	175	(119)
Total Other Expense, Net .....	<b>(2,706)</b>	(1,715)	(1,823)
<b>Income before Income Taxes</b> .....	<b>3,048</b>	10,036	6,606
<b>Income Taxes</b> .....	<b>821</b>	2,860	1,883
<b>Net Income</b> .....	<b>\$ 2,227</b>	\$ 7,176	\$ 4,723
<b>Net Income Per Share</b>			
Basic .....	<b>\$ 0.39</b>	\$ 1.23	\$ 0.77
Dilutive .....	<b>\$ 0.39</b>	\$ 1.20	\$ 0.77
<b>Average Shares Outstanding</b>			
Basic .....	<b>5,647</b>	5,827	6,125
Dilutive .....	<b>5,677</b>	5,996	6,165

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common & Class B Stock	Additional Paid-in Capital	Retained Earnings	Restricted Unearned Stock Compensation	Treasury Stock	Other Comprehensive Income	Total Stockholders' Equity
	(in thousands)						
<b>Balance, July 31, 1997</b> .....	\$724	\$7,686	\$82,243	\$(18)	\$(12,398)	\$ (907)	<u>\$77,330</u>
Net Income .....	—	—	4,723	—	—	—	4,723
Cumulative Translation Adjustments .....	—	—	—	—	—	(244)	<u>(244)</u>
Total Comprehensive Income .....							<u>4,479</u>
Dividends Declared .....	—	—	(1,808)	—	—	—	(1,808)
Purchases of Treasury Stock .....	—	—	—	—	(8,237)	—	(8,237)
Issuance of stock under 1995 Long-Term Incentive Plan .....	—	16	—	(77)	61	—	—
Amortization of Restricted Common Stock Compensation .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>44</u>	<u>—</u>	<u>—</u>	<u>44</u>
<b>Balance, July 31, 1998</b> .....	<u>724</u>	<u>7,702</u>	<u>85,158</u>	<u>(51)</u>	<u>(20,574)</u>	<u>(1,151)</u>	<u>71,808</u>
Net Income .....	—	—	7,176	—	—	—	7,176
Cumulative Translation Adjustments .....	—	—	—	—	—	(8)	<u>(8)</u>
Total Comprehensive Income .....							<u>7,168</u>
Dividends Declared .....	—	—	(1,904)	—	—	—	(1,904)
Purchases of Treasury Stock .....	—	—	—	—	(2,607)	—	(2,607)
Amortization of Restricted Common Stock Compensation .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>42</u>	<u>—</u>	<u>—</u>	<u>42</u>
<b>Balance, July 31, 1999</b> .....	<u>724</u>	<u>7,702</u>	<u>90,430</u>	<u>(9)</u>	<u>(23,181)</u>	<u>(1,159)</u>	<u>74,507</u>
Net Income .....	—	—	2,227	—	—	—	2,227
Cumulative Translation Adjustments .....	—	—	—	—	—	(151)	<u>(151)</u>
Total Comprehensive Income .....							<u>2,076</u>
Dividends Declared .....	—	—	(1,900)	—	—	—	(1,900)
Purchases of Treasury Stock .....	—	—	—	—	(1,751)	—	(1,751)
Issuance of Stock Under 1995 Long-Term Incentive Plan .....	—	(4)	—	(33)	37	—	—
Amortization of Restricted Common Stock Compensation .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>32</u>	<u>—</u>	<u>—</u>	<u>32</u>
<b>Balance, July 31, 2000</b> .....	<u><u>\$724</u></u>	<u><u>\$7,698</u></u>	<u><u>\$90,757</u></u>	<u><u>\$(10)</u></u>	<u><u>\$(24,895)</u></u>	<u><u>\$(1,310)</u></u>	<u><u>\$72,964</u></u>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended July 31,		
	2000	1999	1998
	(in thousands)		
<b>Cash Flows from Operating Activities</b>			
Net income .....	<u>\$ 2,227</u>	<u>\$ 7,176</u>	<u>\$ 4,723</u>
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	9,099	8,497	7,832
Non-cash restructuring and special charges .....	716	—	1,689
Deferred income taxes .....	439	652	(1,251)
Provision for bad debts .....	523	8	2
(Increase) decrease in			
Accounts receivable .....	404	(1,163)	(4,282)
Income taxes receivable .....	(2,267)	—	—
Inventories .....	(1,763)	(1,906)	(2,381)
Prepaid expenses and taxes .....	(756)	(1,405)	(873)
Other assets .....	(2,426)	(788)	(637)
Increase (decrease) in			
Accounts payable .....	(38)	426	366
Accrued expenses .....	(410)	(1,637)	649
Deferred compensation .....	(94)	32	424
Other .....	302	(341)	250
Total Adjustments .....	<u>3,729</u>	<u>2,375</u>	<u>1,788</u>
Net Cash Provided by Operating Activities .....	<u>5,956</u>	<u>9,551</u>	<u>6,511</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures .....	(6,001)	(8,495)	(6,496)
Proceeds from sale of property, plant and equipment .....	12	109	78
Purchases of investment securities .....	(1,219)	(1,225)	(1,173)
Dispositions of investment securities .....	1,225	1,173	1,544
Proceeds from sale of investments .....	—	—	709
Purchase of Oil-Dri, Mounds Production Company assets .....	—	—	(14,657)
Other .....	(9)	5	32
Net Cash Used in Investing Activities .....	<u>(5,992)</u>	<u>(8,433)</u>	<u>(19,963)</u>
<b>Cash Flows from Financing Activities</b>			
Principal payments on long-term debt .....	(2,226)	(2,084)	(1,937)
Proceeds from issuance of long-term debt .....	3,033	400	25,000
Dividends paid .....	(1,911)	(1,865)	(1,839)
Purchase of treasury stock .....	(1,751)	(2,607)	(8,237)
Other .....	(83)	(10)	(122)
Net Cash (Used in) Provided by Financing Activities .....	<u>(2,938)</u>	<u>(6,166)</u>	<u>12,865</u>
<b>Net Decrease in Cash and Cash Equivalents .....</b>	<b><u>(2,974)</u></b>	<b><u>(5,048)</u></b>	<b><u>(587)</u></b>
<b>Cash and Cash Equivalents, Beginning of Year .....</b>	<b><u>4,362</u></b>	<b><u>9,410</u></b>	<b><u>9,997</u></b>
<b>Cash and Cash Equivalents, End of Year .....</b>	<b><u>\$ 1,388</u></b>	<b><u>\$ 4,362</u></b>	<b><u>\$ 9,410</u></b>

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



## **NOTE 1 — Summary of Significant Accounting Policies**

### *Principles of Consolidation*

The consolidated financial statements include the accounts of Oil-Dri Corporation of America and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

### *Management Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Revenue Recognition*

Revenues from sales of products are recognized upon shipment.

### *Income Taxes*

Deferred income taxes reflect the impact of temporary differences between the assets and liabilities recognized for financial reporting purposes and amounts recognized for tax purposes.

No provision has been made for possible income taxes which may be paid on the distribution of approximately \$16,953,000 and \$20,391,000 as of July 31, 2000 and 1999, respectively, of retained earnings of foreign subsidiaries, as substantially all such amounts are intended to be indefinitely invested in these subsidiaries or no additional income taxes would be incurred when such earnings are distributed. It is not practicable to determine the amount of income taxes or withholding taxes that would be payable upon the remittance of assets that represent those earnings.

### *Interest Rate Derivative Instruments*

An interest rate swap agreement which expired on August 1, 1998 was utilized in the management of interest rate exposure. Interest differentials on the swap contract (Note 5) are recorded as interest expense in the contract period incurred. The Company recognized additional interest expense of \$15,100 and \$57,000 in fiscal years 1999 and 1998, respectively, as a result of this contract.

### *Reclassification*

Certain items in prior year financial statements have been reclassified to conform to the presentation used in fiscal 2000.

### *Translation of Foreign Currencies*

Assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated at the exchange rates in effect at period end. Income statement items are translated at the average exchange rate on a monthly basis. Resulting translation adjustments are recorded as a separate component of stockholders' equity.

### *Cash Equivalents*

Cash equivalents are highly liquid investments with maturities of three months or less when purchased.

## NOTE 1 — Summary of Significant Accounting Policies (Continued)

### *Inventories*

Inventories are valued at the lower of cost (first-in, first-out) or market. The composition of inventories as of July 31 is as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Finished goods .....	<b>\$10,251</b>	\$ 9,593
Packaging .....	<b>5,273</b>	4,267
Other .....	<b>1,404</b>	1,305
	<u><b>\$16,928</b></u>	<u>\$15,165</u>

### *Concentration of Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments in government backed instruments, both foreign and domestic, and with other quality institutions. Concentrations of credit risk with respect to accounts receivable are subject to the financial condition of certain major customers, principally the customer referred to in Note 4. The Company generally does not require collateral to secure customer receivables.

### *Property, Plant and Equipment*

Property, plant and equipment expenditures are generally depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Buildings and leasehold improvements .....	5-30
Machinery and equipment .....	2-20
Office furniture and equipment .....	2-10
Vehicles .....	2-8

### *Research and Development*

Research and development costs of \$1,951,000, \$2,110,000 and \$2,376,000 were charged to expense as incurred for the years ended July 31, 2000, 1999 and 1998, respectively.

### *Intangibles and Goodwill*

Intangibles and goodwill are amortized on a straight-line basis over periods ranging from 15 to 40 years. The Company periodically reviews goodwill and other intangibles to assess recoverability from projected undiscounted cash flows of the related operating entities.

### *Advertising Costs*

The Company defers recognition of advertising production costs until the first time the advertising takes place; other advertising costs are expensed as incurred. Advertising expenses were \$4,095,000, \$4,577,000 and \$4,352,000 for the years ended July 31, 2000, 1999 and 1998, respectively.

### *Fair Value of Financial Instruments*

Non-derivative financial instruments included in the consolidated balance sheets are cash and cash equivalents, investment securities and notes payable. These instruments, except for notes payable, were carried at amounts approximating fair value as of July 31, 2000 and 1999. The fair value of notes payable was estimated based on future cash flows discounted at current interest rates available to the Company for debt

**NOTE 1 — Summary of Significant Accounting Policies (Continued)**

with similar maturities and characteristics. The fair value of notes payable as of July 31, 2000 was less than its carrying value by approximately \$2,880,000 and was greater than its carrying value by approximately \$261,000 as of July 31, 1999.

*New Accounting Standards*

In July 1997, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 130, “Reporting Comprehensive Income.” This statement established standards for reporting comprehensive income in the financial statements. The Company adopted this standard in July 1999 and has elected to disclose comprehensive income, which for the Company includes net income and foreign currency translation adjustments, in the consolidated statements of stockholders’ equity.

In June 1997, the FASB issued SFAS No. 131, “Disclosures About Segments of an Enterprise and Related Information.” This statement established new standards for the way companies report information about operating segments and requires that those enterprises report selected information about operating segments in the financial reports issued to shareholders. The Company adopted this standard in July 1999 (see Note 4).

In February 1998, the FASB issued SFAS No. 132, “Employers’ Disclosure about Pension and Other Postretirement Benefits.” This statement revises employers’ disclosures about pensions and other postretirement benefit plans. It does not change the measurement or recognition of those plans in the financial statements. The Company’s adoption of this new standard in July 1999 did not result in material changes to the previously reported amounts. See Note 9 for further discussion.

In June 1998, the FASB issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” which requires companies to recognize all derivatives as assets or liabilities measured at their fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and whether it qualifies for hedge accounting. Although the impact of this statement has not been fully assessed, the Company believes adoption of this statement as amended by SFAS No. 137, which will occur by July 2001, will not have a material financial statement impact.

**NOTE 2 — Restructuring and Special Charges**

In the second quarter of fiscal 2000, the Company recorded a pre-tax restructuring charge of \$1,239,000 against income from operations, as follows (in thousands):

Severance costs .....	\$ 604
Non-performing asset .....	<u>635</u>
Restructuring charge .....	<u>\$1,239</u>

The severance costs are related to a realignment of the Company’s personnel costs to bring them more in line with current levels of sales and profitability. The severance accrual represents 13 employees that were terminated during fiscal 2000. The majority of the positions terminated are at the selling, general and administrative level.

The net book value of the non-performing asset consisted of specific production equipment that has been scrapped. The equipment had been used primarily in the Agricultural Products segment. The net book value of this asset was approximately 1% of the net book value of all fixed assets outstanding as of January 31, 2000.

The Company recorded a pre-tax special charge of \$3,129,000 in the second quarter of fiscal 1998 to cover the cost of exiting the transportation business (\$1,508,000), to write off certain other non-performing assets (\$932,000), and to cover other exit costs (\$689,000). The transportation business exit costs consisted primarily of trailer rehabilitation, employee severance, and professional fees. None of these items was individually significant.

**NOTE 2 — Restructuring and Special Charges (Continued)**

At July 31, 2000, \$81,000 of the restructuring charges remained in current liabilities. A summary of the balance sheet activity for the years ended July 31 is presented below:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands)		
Beginning balance . . . . .	\$ 0	\$ 358	\$ 0
Restructuring and special charges . . . . .	1,239	—	3,129
Utilization of special charges:			
Transportation business exit costs . . . . .	—	(68)	(1,440)
Write-off of non-performing assets . . . . .	—	(124)	(808)
Other exit costs . . . . .	—	(166)	(523)
Utilization of restructuring charge:			
Severance costs . . . . .	(523)	—	—
Write-off of non-performing assets . . . . .	(635)	—	—
Balance at end of year . . . . .	<u>\$ 81</u>	<u>\$ 0</u>	<u>\$ 358</u>

**NOTE 3 — Acquisition**

On April 20, 1998, the Company completed the purchase of the Fuller's Earth absorbent business of American Colloid Co., a wholly owned subsidiary of Amcol International, for approximately \$14,657,000 including transaction expenses. The purchase includes a production plant and mineral reserves in Mounds, Illinois ("Oil-Dri, Mounds Production Company"), and mineral reserves located in Paris, Tennessee. At the time of acquisition, the business had annual sales approximating \$15,000,000. The Company financed the acquisition through a fixed rate private debt placement. The acquisition was accounted for as a purchase, with the excess purchase price over fair market value of the underlying assets allocated to intangibles, including supply contracts and non-compete covenants. These intangibles are being amortized over periods from 15 to 40 years.

**NOTE 4 — Operating Segments**

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments. Under this standard, the Company has four reportable operating segments: Consumer Products, Fluids Purification Products, Agricultural Products, and Industrial and Automotive Products. These segments are managed separately because each business has different economic characteristics. A complete description of each segment can be found in Item 1 of this report.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

#### NOTE 4 — Operating Segments (Continued)

Because management does not rely on segment asset allocation, information regarding segment assets is not meaningful and therefore is not reported.

	Year Ended July 31					
	Net Sales			Operating Income		
	2000	1999	1998	2000	1999	1998
	(in thousands)					
Consumer Products . . . . .	\$115,614	\$114,704	\$101,766	\$14,212	\$17,331	\$18,034
Fluids Purification Products . . . . .	22,669	23,071	21,337	4,209	5,641	4,413
Agricultural Products . . . . .	18,199	19,119	19,403	1,883	3,464	3,225
Industrial and Automotive Products . . . . .	18,637	17,091	15,374	1,008	783	618
Total Ongoing Businesses . . . . .	175,119	173,985	157,880	21,312	27,219	26,290
Total Exited Businesses <sup>1</sup> . . . . .	0	0	2,372	0	0	35
<b>Total Sales/Operating Income . . . . .</b>	<b>\$175,119</b>	<b>\$173,985</b>	<b>\$160,252</b>	<b>\$21,312</b>	<b>\$27,219</b>	<b>\$26,325</b>
Less: Restructuring and Special Charges <sup>2</sup> . . . . .				1,239	—	3,129
Corporate Expenses . . . . .				14,046	14,478	15,032
Interest Expense, net of interest income . . . . .				2,979	2,705	1,558
<b>Income before Income Taxes . . . . .</b>				<b>3,048</b>	<b>10,036</b>	<b>6,606</b>
<b>Income Taxes . . . . .</b>				<b>821</b>	<b>2,860</b>	<b>1,883</b>
<b>Net Income . . . . .</b>				<b>\$ 2,227</b>	<b>\$ 7,176</b>	<b>\$ 4,723</b>

<sup>1</sup> The Company exited the transportation business during the second quarter of fiscal 1998.

<sup>2</sup> See Note 2 for a discussion of the restructuring and special charges recorded in fiscal 2000 and 1998, respectively.

The following is a summary of financial information by geographic region for the years ended July 31:

	2000	1999	1998
	(in thousands)		
Sales to unaffiliated customers:			
Domestic . . . . .	\$161,725	\$159,484	\$146,265
Foreign subsidiaries . . . . .	\$ 13,394	\$ 14,501	\$ 13,987
Sales or transfers between geographic areas:			
Domestic . . . . .	\$ 6,708	\$ 7,332	\$ 9,200
Income before income taxes:			
Domestic . . . . .	\$ 3,064	\$ 9,263	\$ 5,750
Foreign subsidiaries . . . . .	\$ (16)	\$ 773	\$ 856
Net Income:			
Domestic . . . . .	\$ 2,254	\$ 6,586	\$ 4,089
Foreign subsidiaries . . . . .	\$ (27)	\$ 590	\$ 634
Identifiable assets:			
Domestic . . . . .	\$122,761	\$122,686	\$122,455
Foreign subsidiaries . . . . .	\$ 10,083	\$ 11,064	\$ 11,760

The Company's largest customer accounted for the following percentage of consolidated net sales and net accounts receivable under the Consumer Products segment:

	2000	1999	1998
Sales for the years ended July 31 . . . . .	20%	20%	23%
Accounts receivable as of July 31 . . . . .	26%	24%	26%

## NOTE 5 — Notes Payable

The composition of notes payable at July 31 is as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Town of Blue Mountain, Mississippi		
Principal payable on October 6, 2008. Interest payable monthly at a variable interest rate set weekly based on market conditions for similar instruments. The average rate was 4.12% and 3.50% in fiscal 2000 and 1999 respectively. Payment of these bonds by the Company is guaranteed by a letter of credit issued by Harris Trust and Savings Bank . . . . .	<b>\$ 2,500</b>	\$ 2,500
Teachers Insurance and Annuity Association of America		
Payable in annual principal installments on November 15; \$1,100,000 in fiscal 2001; and \$1,000,000 in fiscal 2002. Interest is payable semiannually at an annual rate of 9.38% . . . . .	<b>2,100</b>	3,300
Teachers Insurance and Annuity Association of America		
Payable in annual principal installments on August 15; \$500,000 in fiscal 2002; \$1,000,000 in fiscal 2003; and \$2,500,000 in fiscal 2004 and 2005. Interest is payable semiannually at an annual rate of 7.17% . . . . .	<b>6,500</b>	6,500
Harris Trust and Savings Bank		
Payable in annual principal installments on June 20; \$650,000 in fiscal 2001 and 2002; and \$350,000 in fiscal 2003. Interest is payable quarterly at an annual rate of 7.78% . . . . .	<b>1,650</b>	2,550
Teachers Insurance and Annuity Association of America and Connecticut General Life Insurance Company		
Payable in annual principal installments on April 15; \$1,500,000 in fiscal 2003, 2004 and 2005; \$3,000,000 in fiscal 2006; \$4,000,000 in fiscal 2007 and 2008; \$1,500,000 in fiscal 2009; \$3,000,000 in fiscal 2010; \$2,000,000 in fiscal 2011; and \$1,500,000 in fiscal 2012 and 2013. Interest is payable semiannually at an annual rate of 6.55% . . . . .	<b>25,000</b>	25,000
Harris Trust and Savings Bank Credit Agreement . . . . .	<b>3,020</b>	—
Other . . . . .	<b>414</b>	526
	<b>41,184</b>	40,376
Less current maturities of notes payable . . . . .	<b>(1,750)</b>	(2,226)
	<b><u>\$39,434</u></b>	<b><u>\$38,150</u></b>

On January 29, 1999, the Company entered into a Credit Agreement with Harris Trust and Savings Bank which provides for up to \$15,000,000 in committed unsecured revolving credit loans and/or letters of credit (not to exceed \$5,000,000). This agreement terminates on January 29, 2004, or such earlier date as provided for in the agreement. Additionally, the Company decreased its uncommitted line of credit agreement, which is renewable on an annual basis, with Harris Trust and Savings Bank to \$15,000,000 in fiscal 1999. Outstanding borrowings against this or prior lines were \$3,020,000 and \$0 at July 31, 2000 and 1999, respectively.

In April 1998, the Company completed a private debt placement of \$25,000,000 at 6.55% with Teachers Insurance and Annuity Association of America (\$14,000,000) and Connecticut General Life Insurance Company (\$11,000,000). The proceeds of this fixed rate note were used to fund the purchase of the Company's production facility in Mounds, Illinois, repay draws against the Company's line of credit and for general working capital purposes.

The agreements with the Town of Blue Mountain, Mississippi, Teachers Insurance and Annuity Association of America, Harris Trust and Savings Bank and Connecticut General Life Insurance Company impose working capital requirements, dividend and financing limitations, minimum tangible net worth

**NOTE 5 — Notes Payable (Continued)**

requirements and other restrictions. The Company's new Credit Agreement with Harris Trust and Savings Bank indirectly restricts dividends by requiring the Company to maintain tangible net worth, as defined, in the amount of \$50,000,000 plus 40% of cumulative annual earnings from July 31, 1998.

In prior years, the Town of Blue Mountain, Mississippi issued long-term bonds to finance the purchase of substantially all of the assets of certain plant expansion projects, and leased the projects to the Company and various of its subsidiaries (with the Company and various of its wholly owned subsidiaries as guarantors) at rentals sufficient to pay the debt service on the bonds.

The following is a schedule by year of future maturities of notes payable as of July 31, 2000:

	(in thousands)
2002 .....	\$ 2,164
2003 .....	2,850
2004 .....	7,020
2005 .....	4,080
Later years .....	<u>23,320</u>
	<u><b>\$39,434</b></u>

**NOTE 6 — Income Taxes**

The provision for income tax expense consists of the following:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands)		
Current			
Federal .....	<b>\$(1,450)</b>	\$1,324	\$ 2,159
Foreign .....	<b>11</b>	182	194
State .....	<u>(409)</u>	<u>702</u>	<u>781</u>
	<u><b>(1,848)</b></u>	<u>2,208</u>	<u>3,134</u>
Deferred			
Federal .....	<b>1,046</b>	649	(436)
Operating loss carryforward .....	<b>1,371</b>	91	(611)
Foreign .....	—	1	25
State .....	<u><b>252</b></u>	<u>(89)</u>	<u>(229)</u>
	<u><b>2,669</b></u>	<u>652</u>	<u>(1,251)</u>
Total Income Tax Provision .....	<u><b>\$ 821</b></u>	<u>\$2,860</u>	<u>\$ 1,883</u>

Principal reasons for variations between the statutory federal rate and the effective rates for the years ended July 31 were as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
U.S. federal statutory income tax rate .....	<b>34.0%</b>	34.0%	34.0%
Depletion deductions allowed for mining .....	<b>(5.0)</b>	(12.0)	(15.1)
State income tax (benefit)/expense, net of federal tax (benefit)/expense .....	<b>(3.4)</b>	4.0	2.2
Valuation allowance without income tax benefit .....	<b>(3.3)</b>	4.6	10.4
Difference in effective tax rate of foreign subsidiaries .....	<b>(0.1)</b>	(1.0)	(1.1)
Alternative minimum and foreign tax credits .....	<b>3.8</b>	1.9	(0.2)
Other .....	<u><b>0.9</b></u>	<u>(3.0)</u>	<u>(1.7)</u>
	<u><b>26.9%</b></u>	<u>28.5%</u>	<u>28.5%</u>

**NOTE 6 — Income Taxes (Continued)**

The consolidated balance sheets as of July 31 included the following tax effects of cumulative temporary differences:

	2000		1999	
	Assets	Liabilities	Assets	Liabilities
	(in thousands)			
Depreciation .....	\$ —	\$1,000	\$ —	\$1,608
Deferred compensation .....	1,207	—	1,244	—
Postretirement benefits .....	548	—	474	—
Other assets .....	617	—	633	—
Accrued expenses .....	255	—	486	—
Tax credits .....	635	—	750	—
Operating loss carryforward .....	1,125	—	2,768	—
Other .....	—	259	40	—
	4,387	1,259	6,395	1,608
Valuation allowance .....	(522)	—	(1,742)	—
Total deferred taxes .....	\$3,865	\$1,259	\$ 4,653	\$1,608

As of July 31, 2000, for federal income tax purposes there were regular tax operating loss carryforwards of approximately \$2,899,000, which begin to expire in the year 2013. Tax credits of approximately \$635,000, primarily consisting of foreign tax credits expiring in 2001 and later years, are also being carried forward. A valuation allowance has been established for \$522,000 of the deferred tax benefit related to those tax credits for which it is more likely than not that the benefit will not be realized. The net decrease in the valuation allowance of \$1,220,000 is the result of an addition to the allowance of \$522,000 for foreign tax credits, as previously described, and the reduction in the reverse of \$1,742,000, relating to net operating loss carryforwards. Due to higher levels of taxable income at the parent company level in the current year, the Company was able to utilize approximately \$4,574,000 of net operating loss carryforwards. It is anticipated that the remaining net operating loss carryforwards will be utilized in future years.

**NOTE 7 — Stockholders' Equity**

The authorized capital stock of the Company at July 31, 2000 and 1999 consisted of 15,000,000 shares of Common Stock, 7,000,000 shares of Class B Stock and 30,000,000 shares of Class A Common Stock, each with a par value of \$.10 per share. There are no Class A shares currently outstanding.

The Common Stock and Class B Stock are equal, on a per share basis, in all respects except as to voting rights, conversion rights, cash dividends and stock splits or stock dividends. The Class A Common Stock is equal, on a per share basis, in all respects, to the Common Stock except as to voting rights and stock splits or stock dividends. In the case of voting rights, Common Stock is entitled to one vote per share and Class B Stock is entitled to ten votes per share, while Class A Common Stock generally has no voting rights. Common Stock and Class A Common Stock have no conversion rights. Class B Stock is convertible on a share-for-share basis into Common Stock at any time and is subject to mandatory conversion under certain circumstances.

Common Stock is entitled to cash dividends, as and when declared or paid, equal to 133⅓% on a per share basis of the cash dividend paid on Class B Stock. Class A Common Stock is entitled to cash dividends on a per share basis equal to the cash dividend on Common Stock. Additionally, while shares of Common Stock, Class A Common Stock and Class B Stock are outstanding, the sum of the per share cash dividend paid on shares of Common Stock and Class A Common Stock, must be equal to at least 133⅓% of the sum of the per share cash dividend paid on Class B Stock and Class A Common Stock. See Note 5 regarding dividend restrictions.

Shares of Common Stock, Class A Common Stock and Class B Stock are equal in respect of all rights to dividends (other than cash) and distributions in the form of stock or other property (including stock dividends



**NOTE 7 — Stockholders' Equity (Continued)**

and split-ups) in each case in the same ratio except in the case of a Special Stock Dividend. The Special Stock Dividend, which can be issued only once, is either a dividend of one share of Class A Common Stock for each share of Common Stock and Class B Stock outstanding or a recapitalization, in which half of each outstanding share of Common Stock and Class B Stock would be converted into a half share of Class A Common Stock.

In December 1999, the Board of Directors of the Company authorized the repurchase, from time to time, of up to 350,000 additional shares of the Company's stock. This authorization, in addition to previous authorizations, totals 1,916,771 shares. As of July 31, 2000, 1,127,330 shares of Common Stock and 342,241 shares of Class B Stock have been repurchased under these authorizations.

The number of holders of record of Common Stock and Class B stock on July 31, 2000 was 1,117 and 32, respectively, as reported by the Company's transfer agent. The Company's Common Stock is traded on the New York Stock Exchange. There is no established trading market for the Class B Stock.

**NOTE 8 — Stock Option Plans**

The Company instituted the Oil-Dri Corporation of America 1995 Long Term Incentive Plan during the fiscal year ended July 31, 1996. On December 9, 1997, the stockholders voted to increase the number of shares available for grant under the 1995 Plan from 500,000 to 1,000,000 and further authorized the grant of Class B Shares under the Plan to certain members of the Richard M. Jaffee family. Generally, other than grants to Richard M. Jaffee family members, shares of stock awarded under the 1995 Plan will be Class A Common Stock, except that, if there is no Class A Common Stock issued and publicly traded on a securities exchange when such awards are exercised, the shares awarded would be Common Stock. On December 7, 1999, the stockholders voted to increase the number of shares available for grant under the 1995 Plan from 1,000,000 to 1,500,000. On June 9, 2000 the 1995 Plan was amended to provide 100% vesting and a three year exercise period upon the death or disability of a grantee or upon a grantee's retirement with age plus years of service equal to at least 80. The Plan provides for various other types of awards. Awards of restricted stock in the amount of 2,500 and 4,500 shares were made during the fiscal years ended July 31, 2000, and 1998 respectively. On September 18, 1998, 840,125 shares which had been issued in prior fiscal years under the 1995 Plan at an average price of \$14.83 were reissued at an exercise price of \$11.25. The reissued options awarded to members of the Richard M. Jaffee family covered Class B shares. A new vesting period applied to all the reissued options.

The Oil-Dri Corporation of America 1988 Stock Option Plan terminated on December 12, 1995, for purposes of future grants. The outstanding options under this plan will remain outstanding and exercisable in accordance with their respective terms.

The Company instituted the Oil-Dri Corporation of America Outside Director's Stock Plan on June 9, 1998. All shares of stock issued under this plan will be shares of Common Stock issued from Treasury Stock. The Plan provides for stock option grants and various other types of awards.

**NOTE 8 — Stock Option Plans (Continued)**

A summary of option transactions under the plans follows:

	<u>1988 Option Plan</u>			<u>1995 Option Plan</u>		
	<u>Number of Shares</u>			<u>Number of Shares</u>		
	<u>(Weighted Average Option Price)</u>			<u>(Weighted Average Option Price)</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands except for per share amounts)					
Outstanding, Beginning of Year . . . . .	<b>144</b>	186	199	<b>884</b>	881	324
Per Share	<b>\$(19.27)</b>	\$(18.49)	\$(18.49)	<b>\$(11.37)</b>	\$(14.84)	\$(14.88)
Granted . . . . .	—	—	—	<b>167</b>	882	1,036
Per Share	—	—	—	<b>\$(12.37)</b>	\$(11.29)	\$(15.33)
Exercised . . . . .	—	—	—	—	—	—
Per Share	—	—	—	—	—	—
Canceled/Terminated . . . . .	<b>35</b>	42	13	<b>245</b>	39	37
Per Share	<b>\$(19.25)</b>	\$(15.85)	\$(18.59)	<b>\$(11.43)</b>	\$(13.51)	\$(15.62)
Canceled/Reissued . . . . .	—	—	—	—	840	442
Per Share	—	—	—	—	\$(14.83)	\$(15.94)
Outstanding, End of Year . .	<b>109</b>	144	186	<b>806</b>	884	881
Per Share	<b>\$(19.27)</b>	\$(19.27)	\$(18.49)	<b>\$(11.56)</b>	\$(11.37)	\$(14.84)

	<u>Outside Director's Plan</u>			<u>Combined Plans</u>		
	<u>Number of Shares</u>			<u>Number of Shares</u>		
	<u>(Weighted Average Option Price)</u>			<u>(Weighted Average Option Price)</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands except for per share amounts)					
Outstanding, Beginning of Year . . . . .	<b>70</b>	70	—	<b>1,098</b>	1,137	523
Per Share	<b>\$(14.63)</b>	\$(14.63)	—	<b>\$(12.61)</b>	\$(15.42)	\$(16.25)
Granted . . . . .	<b>10</b>	—	70	<b>177</b>	882	1,106
Per Share	<b>\$(14.75)</b>	—	\$(14.63)	<b>\$(12.50)</b>	\$(11.29)	\$(15.28)
Exercised . . . . .	—	—	—	—	—	—
Per Share	—	—	—	—	—	—
Canceled/Terminated . . . . .	—	—	—	<b>280</b>	81	50
Per Share	—	—	—	<b>\$(12.40)</b>	\$(14.73)	\$(16.36)
Canceled/Reissued . . . . .	—	—	—	—	840	442
Per Share	—	—	—	—	\$(14.83)	\$(15.94)
Outstanding, End of Year . .	<b>80</b>	70	70	<b>995</b>	1,098	1,137
Per Share	<b>\$(14.64)</b>	\$(14.63)	\$(14.63)	<b>\$(12.65)</b>	\$(12.61)	\$(15.42)

As of July 31, 2000, the Company has reserved 684,750 and 120,000 shares of Common Stock for future grants and issuances under the Oil-Dri Corporation of America 1995 Long Term Incentive Plan and the Oil-Dri Corporation of America Outside Director's Stock Plan, respectively.

Exercise prices of the options outstanding under the 1988 Option Plan range between \$17.75 and \$19.38 per share with a weighted average price of \$19.27 per share and a weighted remaining average contractual life at July 31, 2000 of 3.8 years. As of July 31, 2000 all of the 109,250 options outstanding were exercisable.

The weighted average exercise price of options outstanding under the Outside Director's Stock Plan is \$14.64 with a weighted average contractual life of 8.0 years. As of July 31, 2000, 70,000 of these options were exercisable.

**NOTE 8 — Stock Option Plans (Continued)**

Exercise prices of the options outstanding under the 1995 Long Term Incentive Plan range between \$8.19 and \$15.13 per share with a weighted average exercise price of \$11.56 per share and a weighted remaining average contractual life of 8.3 years at July 31, 2000. As of July 31, 2000, 10,250 of these options were exercisable.

The Company has elected to continue to account for stock-based compensation using the intrinsic value method under APB Opinion No. 25. Consequently, no compensation expense has been recognized for stock options. If compensation expense for the Company's stock options issued in the fiscal years ended July 31, 2000, 1999 and 1998 had been determined based on the fair value method of accounting, as defined in SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands except for per share amounts)		
Net income as reported . . . . .	<b>\$2,227</b>	\$7,176	\$4,723
Pro forma . . . . .	<b>\$1,651</b>	\$6,515	\$4,430
Net income per share as reported			
Basic . . . . .	<b>\$ 0.39</b>	\$ 1.23	\$ 0.77
Dilutive . . . . .	<b>\$ 0.39</b>	\$ 1.20	\$ 0.77
Pro forma			
Basic . . . . .	<b>\$ 0.29</b>	\$ 1.12	\$ 0.72
Dilutive . . . . .	<b>\$ 0.29</b>	\$ 1.09	\$ 0.72

The fair value of issued stock options is estimated on the grant date using the Black-Scholes Option Pricing Method with the following assumptions:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Dividend Yields . . . . .	<b>3.1%</b>	2.8%	2.1%
Volatility . . . . .	<b>30.9%</b>	25.8%	25.6%
Risk-free Interest Rate . . . . .	<b>6.1%</b>	5.9%	5.7%
Expected Life (Years) . . . . .	<b>5.4</b>	5.4	5.4

The weighted average fair value of the options granted, including the effect of repricing in fiscal year 1999, was \$3.66, \$1.42 and \$4.55 for the fiscal years ended July 31, 2000, 1999 and 1998, respectively.

**NOTE 9 — Employee Benefit Plans**

The Company and its subsidiaries have defined benefit pension plans for eligible salaried and hourly employees. Benefits are based on a formula of years of credited service and levels of compensation or stated amounts for each year of credited service. The assets of these plans are invested in various high quality marketable securities.

The net periodic pension cost for the years ended July 31 consists of the following:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands)		
Service cost . . . . .	<b>\$ 499</b>	\$ 539	\$ 438
Interest cost on projected benefit obligations . . . . .	<b>642</b>	591	538
Earnings on plan assets . . . . .	<b>(904)</b>	(686)	(1,060)
Net amortization and deferral . . . . .	<b>(105)</b>	(33)	422
Net pension cost . . . . .	<b><u>\$ 132</u></b>	<u>\$ 411</u>	<u>\$ 338</u>

**NOTE 9 — Employee Benefit Plans (Continued)**

The funded status of the plans at July 31 is as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Actuarial Present Value of Benefit Obligations		
Accumulated Benefit Obligations		
Vested . . . . .	\$ 6,600	\$ 6,194
Nonvested . . . . .	<u>400</u>	<u>337</u>
Total Accumulated Benefit Obligations . . . . .	<u>\$ 7,000</u>	<u>\$ 6,531</u>
Projected Benefit Obligations . . . . .	\$ 8,700	\$ 8,370
Plan Assets at Fair value . . . . .	<u>11,040</u>	<u>10,059</u>
Excess of Plan Assets Over Projected Benefit Obligations . . . . .	2,340	1,689
Unrecognized Net Gain . . . . .	(3,679)	(3,303)
Unrecognized Prior Service Cost . . . . .	534	581
Unrecognized Net Excess Plan Assets as of August 1, 1987, Being Recognized Principally Over 21 Years . . . . .	<u>(211)</u>	<u>(238)</u>
Accrued Pension Included in Noncurrent Liabilities—Other . . . . .	<u>\$ (1,016)</u>	<u>\$ (1,271)</u>

Reconciliation of the assets and liabilities of the plans at July 31 is as follows:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Change in Plan Assets		
Plan assets at fair value, beginning of year . . . . .	\$10,059	\$ 8,524
Actual return on plan assets . . . . .	852	1,322
Contributions . . . . .	387	464
Benefits paid . . . . .	<u>(258)</u>	<u>(251)</u>
Plan assets at fair value, end of year . . . . .	<u>\$11,040</u>	<u>\$10,059</u>
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of year . . . . .	\$ 8,370	\$ 8,943
Service cost . . . . .	499	539
Interest cost . . . . .	642	592
Change in discount rate . . . . .	(368)	(1,131)
Other assumption changes . . . . .	(259)	—
Plan amendments . . . . .	—	3
Actuarial loss (gain) . . . . .	74	(325)
Benefits paid . . . . .	<u>(258)</u>	<u>(251)</u>
Projected benefit obligation, end of year . . . . .	<u>\$ 8,700</u>	<u>\$ 8,370</u>

Assumptions used in the previous calculations are as follows:

	<u>2000</u>	<u>1999</u>
Discount rate . . . . .	8.0%	7.75%
Rate of increase in compensation levels for net pension costs . . . . .	5.0%	5.0%
Rate of increase in compensation levels for projected benefit obligations . . . . .	4.5%	5.0%
Long-term expected rate of return on assets . . . . .	9.0%	8.0%

The Company has funded the plans based upon actuarially determined contributions that take into account the amount deductible for income tax purposes and the minimum contribution required under the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

**NOTE 9 — Employee Benefit Plans (Continued)**

For the years ended July 31, 2000, 1999 and 1998, the Company maintained a 401(k) savings plan under which the Company matches a portion of employee contributions. The plan is available to essentially all domestic employees at the beginning of the month following thirty or sixty days of employment. During the period May 1, 1998 through July 31, 1999, domestic employees were eligible to participate at the beginning of the fiscal quarter following thirty or sixty days of employment. Prior to May 1, 1998, domestic employees were eligible to participate after one year of service and the attainment of age 21. The Company's contributions to this plan, and to similar plans maintained by the Company's foreign subsidiaries, were \$489,000, \$449,000 and \$226,000 for fiscal years 2000, 1999 and 1998, respectively.

**NOTE 10 — Deferred Compensation**

In December 1995, the Company adopted the Oil-Dri Corporation of America Deferred Compensation Plan. This plan has permitted Directors and certain management employees to defer portions of their compensation and earn interest on the deferred amounts. During the period January 1, 1999 through September 30, 2000, participants' returns were tied to the performance of various investment elections. The compensation, which has been deferred since the inception of the original plan, has been accrued as well as earnings thereon. The Company has purchased life insurance contracts on some participants to partially fund both the original plan and the new plan.

**NOTE 11 — Commitments and Contingencies**

The Company became a guarantor of certain leases for transportation equipment reassigned to CRST International, Inc. (CRST) during fiscal 1998, when exiting the transportation business. Remaining payments due under these lease agreements by CRST are \$299,000, \$156,000 and \$65,000 for fiscal years 2001, 2002 and 2003, respectively.

The Company is involved in various litigation of a nature that is normal to its business. While it is impossible at this time to determine with certainty the ultimate outcome of these or other lawsuits, each lawsuit is either covered by insurance or adequate provisions have been made for probable losses with respect thereto as can best be determined at this time. Management therefore believes that none of the pending litigation will have a material adverse effect on the financial condition of the Company or on results of operations.

**NOTE 12 — Leases**

The Company's mining operations are conducted on leased or owned property. These leases generally provide the Company with the right to mine as long as the Company continues to pay a minimum monthly rental, which is applied against the per ton royalty when the property is mined.

The Company leases its corporate offices in Chicago, Illinois (20,000 square feet), office, production and warehouse space in Alpharetta, Georgia (26,000 square feet), office and production facilities in Kiel, Wisconsin (16,000 square feet) and office facilities in Europe. The office space in Chicago is subject to a lease expiring in fiscal 2008. The Alpharetta, Georgia and Kiel, Wisconsin leases expire in fiscal 2003. The facilities in Europe are leased on a year-to-year basis.

In addition, the Company leases railcars, mining equipment, warehouse space, data processing equipment, and office equipment. In most cases, the Company expects that, in the normal course of business, leases will be renewed or replaced by other leases. Prior to exiting the transportation business, the Company leased tractors and trailers.

**NOTE 12 — Leases (Continued)**

The following is a schedule by year of future minimum rental requirements under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of July 31, 2000:

	(in thousands)
2001 .....	\$ 2,658
2002 .....	1,543
2003 .....	1,287
2004 .....	1,244
2005 .....	988
Later years .....	<u>3,626</u>
	<u>\$11,346</u>

The following schedule shows the composition of total rental expense for all operating leases, including those with terms of one month or less which were not renewed as of the years ended July 31:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands)		
Transportation equipment .....	<b>\$1,099</b>	\$ 898	\$1,237
Office facilities .....	<b>480</b>	475	441
Warehouse facilities .....	<b>452</b>	216	190
Mining properties			
Minimum .....	<b>191</b>	186	202
Contingent .....	<b>295</b>	410	403
Other .....	<b>594</b>	630	298
	<u><b>\$3,111</b></u>	<u>\$2,815</u>	<u>\$2,771</u>

**NOTE 13 — Other Cash Flow Information**

Cash payments for interest and income taxes were as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(in thousands)		
Interest .....	<u><b>\$2,836</b></u>	<u>\$2,879</u>	<u>\$1,398</u>
Income Taxes .....	<u><b>\$2,051</b></u>	<u>\$3,152</u>	<u>\$2,619</u>

**NOTE 14 — Selected Quarterly Financial Data (Unaudited)**

A summary of selected information for 2000 and 1999 is as follows:

	<u>Fiscal 2000 Quarter Ended</u>				
	<u>October 31</u>	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>Total</u>
	(in thousands except per share amounts)				
Net Sales .....	\$44,549	\$45,880	\$42,604	\$42,086	\$175,119
Gross Profit .....	\$13,580	\$12,084	\$12,061	\$12,210	\$ 49,935
Net Income .....	\$ 1,479	\$ (599)	\$ 560	\$ 787	\$ 2,227
Net Income Per Share					
Basic .....	\$ 0.26	\$ (0.11)	\$ 0.10	\$ 0.14	\$ 0.39
Dilutive .....	\$ 0.25	\$ (0.10)	\$ 0.10	\$ 0.14	\$ 0.39
Dividends Per Share					
Common .....	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.36
Class B .....	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.27
Company Common Stock Price					
Range:					
High .....	\$ 16.13	\$ 15.63	\$ 12.81	\$ 10.25	
Low .....	\$ 9.75	\$ 11.75	\$ 6.88	\$ 7.75	
	<u>Fiscal 1999 Quarter Ended</u>				
	<u>October 31</u>	<u>January 31</u>	<u>April 30</u>	<u>July 31</u>	<u>Total</u>
	(in thousands except per share amounts)				
Net Sales .....	\$43,670	\$47,435	\$42,405	\$40,475	\$173,985
Gross Profit .....	\$14,085	\$15,208	\$13,015	\$12,551	\$ 54,859
Net Income .....	\$ 2,028	\$ 2,276	\$ 1,195	\$ 1,677	\$ 7,176
Net Income Per Share					
Basic .....	\$ 0.34	\$ 0.39	\$ 0.21	\$ 0.29	\$ 1.23
Dilutive .....	\$ 0.34	\$ 0.38	\$ 0.20	\$ 0.28	\$ 1.20
Dividends Per Share					
Common .....	\$ 0.08	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.35
Class B .....	\$ 0.06	\$0.0675	\$0.0675	\$0.0675	\$ 0.2625
Company Common Stock Price					
Range:					
High .....	\$ 14.13	\$ 15.50	\$ 15.94	\$ 16.38	
Low .....	\$ 10.81	\$ 13.44	\$ 14.25	\$ 13.63	

## INDEPENDENT AUDITOR'S REPORT

### **Stockholders and Board of Directors**

Oil-Dri Corporation of America

We have audited the consolidated balance sheets of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2000 in conformity with generally accepted accounting principles.

### **Blackman Kallick Bartelstein, LLP**

Chicago, Illinois

September 15, 2000

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.



## PART III

### Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is (except for information set forth below concerning the Board of Directors and information in Part I, hereof, concerning executive officers) contained in the Registrant's Proxy Statement for its 2000 Annual Meeting of stockholders ("Proxy Statement") under the caption "1. Election of Directors" and is incorporated herein by this reference.

#### Board of Directors

Richard M. Jaffee  
*Chairman*

Joseph C. Miller  
*Vice-Chairman*

Daniel S. Jaffee  
*President and Chief Executive Officer*

Paul J. Miller  
*Partner, Sonnenschein Nath & Rosenthal*

J. Steven Cole<sup>1</sup>  
*President, Cole & Associates,  
Chairman, Sav-A-Life Systems, Inc.*

Haydn H. Murray  
*Professor Emeritus of Geology, Indiana University,  
President, H.H. Murray & Associates*

Arnold W. Donald  
*Senior Vice-President, Monsanto Life Sciences Co.*

Allan H. Selig<sup>2</sup>  
*President and Chairman, Selig Lease Company,  
Commissioner of Major League Baseball*

Ronald B. Gordon  
*Chief Executive Officer, Beiersdorf North America*

Thomas D. Kuczmariski  
*Senior Partner and President, Kuczmariski  
& Associates, Inc.*

<sup>1</sup>*Audit Committee Chair*  
<sup>2</sup>*Compensation Committee Chair*

### Item 11. Executive Compensation

The information required by this Item is contained in the Registrant's Proxy Statement under the captions "Executive Compensation," "Report of the Compensation and the Stock Option Committees of Oil-Dri Corporation of America on Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Performance Graph" and is incorporated herein by this reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is contained in the Registrant's Proxy Statement under the captions "General — Principal Stockholders" and "Security Ownership of Management" and is incorporated herein by this reference.

### Item 13. Certain Relationships and Related Transactions

The information required by this Item is contained in the Registrant's Proxy Statement under the caption "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by this reference.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) The following financial statements are contained herein.

Consolidated Balance Sheets as of July 31, 2000 (audited) and July 31, 1999 (audited).

Consolidated Statements of Income for the fiscal years ended July 31, 2000 (audited), July 31, 1999 (audited) and July 31, 1998 (audited).

Consolidated Statements of Stockholders' Equity for the fiscal years ended July 31, 2000 (audited), July 31, 1999 (audited) and July 31, 1998 (audited).

Consolidated Statements of Cash Flows for the fiscal years ended July 31, 2000 (audited), July 31, 1999 (audited) and July 31, 1998 (audited).

Notes to Consolidated Financial Statements.

Independent Auditor's Report.

(a) (2) The following financial statement schedules are contained herein:

Independent Auditor's Report on Schedules.

Schedules to Financial Statements, as follows:

Schedule II — Valuation and Qualifying Accounts, years ended July 31, 2000, 1999 and 1998.

(a) (3) The following documents are exhibits to this Report:

- (3) (a)<sup>1</sup> Articles of Incorporation of the Registrant, as amended.
- (3) (b)<sup>2</sup> Bylaws of the Registrant, as amended June 16, 1995.
- (10) (c) (1)<sup>3</sup> Agreement ("Clorox Agreement") dated January 12, 1981 between The Clorox Company and the Registrant, as amended. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (2)<sup>4</sup> Amendment to Clorox Agreement dated March 3, 1989, as accepted by the Registrant on March 20, 1989, between The Clorox Company and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (3)<sup>5</sup> Amendment to Clorox Agreement dated February 14, 1991, between The Clorox Company and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (d)<sup>6</sup> Description of 1987 Executive Deferred Compensation Program.\*
- (10) (e) (1)<sup>7</sup> Salary Continuation Agreement dated August 1, 1989 between Richard M. Jaffee and the Registrant ("1989 Agreement").\*
- (10) (e) (2)<sup>8</sup> Extension and Amendment, dated October 9, 1998, to the 1989 Agreement.\*
- (10) (f)<sup>9</sup> 1988 Stock Option Plan.\*
- (10) (g)<sup>10</sup> Note Agreement, dated April 5, 1991, between the Registrant and Teacher's Insurance and Annuity Association of America regarding \$8,000,000 9.38% Senior Notes due November 15, 2001.
- (10) (h)<sup>11</sup> Note Agreement, dated as of April 15, 1993, between the Registrant and Teacher's Insurance and Annuity Association of America regarding \$6,500,000 7.17% Senior Notes due August 15, 2004.

- (10) (i)<sup>12</sup> Credit Agreement, dated as of September 21, 1994, between the Registrant and Harris Trust and Savings Bank regarding \$5,000,000 7.78% Term Loan Note and \$5,000,000 Revolving Credit Note.
- (10) (j) The Oil-Dri Corporation of America Deferred Compensation Plan adopted November 15, 1995, as amended and restated effective October 1, 2000.\*
- (10) (k) The Oil-Dri Corporation of America 1995 Long Term Incentive Plan as amended and restated effective June 9, 2000.\*
- (10) (l)<sup>13</sup> \$10,000,000 unsecured line of credit agreement dated as of July 25, 1996 between the Registrant and Harris Trust and Savings Bank.
- (10) (m)<sup>14</sup> \$25,000,000 Note Purchase Agreement dated as of April 15, 1998 between the Registrant and Teachers Insurance and Annuity Association of America and Cigna Investments, Inc.
- (10) (n) The Oil-Dri Corporation of America Outside Director Stock Plan as amended and restated effective October 16, 1999.\*
- (10) (o)<sup>15</sup> \$15,000,000 unsecured line of credit agreement dated January 29, 1999 between the Company and Harris Trust and Savings Bank.
- (10) (p)<sup>16</sup> \$15,000,000 unsecured, uncommitted line of credit agreement dated January 29, 1999 between the Company and Harris Trust and Savings Bank.
- (10) (q)<sup>17</sup> Split Dollar Life Insurance Agreements dated February 26, 1999.\*
- (10) (r)<sup>18</sup> Agreement (“Church & Dwight Agreement”) dated May 19, 1999 between Church & Dwight Co., Inc. and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)

(b) Reports on Form 8-K.

Report on Form 8-K was filed by the Registrant on July 24, 2000, Reporting on Item 5., Other events.

- (11) Statement re: Computation of Income per Share
- (21) Subsidiaries of the Registrant.
- (23) Consent of Blackman Kallick Bartelstein, LLP.
- (27) Financial Data Schedule.

\* Management contract or compensatory plan or arrangement.

<sup>1</sup> Incorporated by reference to Exhibit (4.1) to the Registrant’s Registration Statement on Form S-8 (Registration No. 333-57625), made effective on June 24, 1998.

<sup>2</sup> Incorporated by reference to Exhibit (3) (b) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1995.

<sup>3</sup> Incorporated by reference to Exhibit (10) (f) to the Registrant’s Registration Statement on Form S-2 (Registration No. 2-97248) made effective on May 29, 1985.

<sup>4</sup> Incorporated by reference to Exhibit (10) (e) (2) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1989.

<sup>5</sup> Incorporated by reference to Exhibit (10) (e) (3) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1991.

<sup>6</sup> Incorporated by reference to Exhibit (10) (f) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1988.

<sup>7</sup> Incorporated by reference to Exhibit (10) (g) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1989.

<sup>8</sup> Incorporated by reference to Exhibit (10) (n) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended July 31, 1998.

- <sup>9</sup> Incorporated by reference to Exhibit (4)(a) to the Registrant's Registration Statement on Form S-8 (Registration No. 33-29650), made effective on June 30, 1989.
- <sup>10</sup> Incorporated by reference to Exhibit (10)(h) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1991.
- <sup>11</sup> Incorporated by reference to Exhibit (10)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993.
- <sup>12</sup> Incorporated by reference to Exhibit (10)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1994.
- <sup>13</sup> Incorporated by reference to Exhibit (10)(l) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1996.
- <sup>14</sup> Incorporated by reference to Exhibit (10)(m) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1998.
- <sup>15</sup> Incorporated by reference to Exhibit (10)(o) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.
- <sup>16</sup> Incorporated by reference to Exhibit (10)(p) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.
- <sup>17</sup> Incorporated by reference to Exhibit (10)(q) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.
- <sup>18</sup> Incorporated by reference to Exhibit (10)(r) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1999.

The Registrant agrees to furnish the following agreements upon the request of the Commission:

Exhibit (4)(b) Letter of Credit Agreement, dated as of October 1, 1988 between Harris Trust and Savings Bank and Blue Mountain Production Company in the amount of \$2,634,590 in connection with the issuance by Town of Blue Mountain, Mississippi of Variable/Fixed Rate Industrial Development Revenue Bonds, Series 1988 B (Blue Mountain Production Company Project) in the aggregate principal amount of \$2,500,000 and related Indenture of Trust, Lease Agreement, Remarketing Agreement and Guaranties.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OIL-DRI CORPORATION OF AMERICA  
(Registrant)

By           /s/ DANIEL S. JAFFEE            
Daniel S. Jaffee,  
President and Chief Executive Officer, Director

Dated: October 13, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>          /s/ RICHARD M. JAFFEE          </u> Richard M. Jaffee Chairman of the Board of Directors	October 13, 2000
<u>          /s/ JEFFREY M. LIBERT          </u> Jeffrey M. Libert Vice President Chief Financial Officer Principal Financial Officer Principal Accounting Officer	October 13, 2000
<u>          /s/ J. STEVEN COLE          </u> J. Steven Cole Director	October 13, 2000
<u>          /s/ ARNOLD W. DONALD          </u> Arnold W. Donald Director	October 13, 2000
<u>          /s/ RONALD B. GORDON          </u> Ronald B. Gordon Director	October 13, 2000
<u>          /s/ THOMAS D. KUZCMARSKI          </u> Thomas D. Kuzcmarski Director	October 13, 2000
<u>          /s/ JOSEPH C. MILLER          </u> Joseph C. Miller Director	October 13, 2000
<u>          /s/ PAUL J. MILLER          </u> Paul J. Miller Director	October 13, 2000

*/s/* HAYDN H. MURRAY

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Haydn H. Murray  
Director

October 13, 2000

*/s/* ALLAN H. SELIG

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Allan H. Selig  
Director

October 13, 2000

## INDEPENDENT AUDITOR'S REPORT ON SCHEDULES

Board of Directors  
Oil-Dri Corporation of America  
Chicago, Illinois

In connection with our audit of the consolidated financial statements of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 2000 and 1999 and for each of the three years in the period ended July 31, 2000, which report thereon dated September 15, 2000, is incorporated by reference in this Annual Report on Form 10-K, we also examined the financial statement schedules listed in the accompanying index at Item 14(A)(2). In our opinion, these financial statement schedules present fairly, when read in conjunction with the related consolidated financial statements, the financial data required to be set forth therein.

Blackman Kallick Bartelstein, LLP  
September 15, 2000

**OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES**  
**VALUATION AND QUALIFYING ACCOUNTS**

	Year Ended July 31		
	2000	1999	1998
	(in thousands)		
Allowance for doubtful accounts:			
Beginning balance .....	\$358	\$351	\$261
Additions charged to expense* .....	523	8	201
Deductions** .....	45	1	111
Balance at end of year .....	\$836	\$358	\$351

\* Includes transfers from Special Charge Reserve in fiscal 1998.

\*\* Net of recoveries.

Inventory obsolescence reserve:			
Beginning balance .....	\$ 358	\$ 540	\$365
Additions charged to expense .....	—	300	300
Deductions .....	102	482	125
Balance at end of year .....	\$ 256	\$ 358	\$540
Valuation reserve for income taxes:			
Beginning balance .....	\$1,742	\$ 648	\$730
Additions charged to expense .....	522	1,094	—
Deductions .....	1,742	—	82
Balance at end of year .....	\$ 522	\$1,742	\$648



## Exhibit Index

**Exhibit  
Number**

- (10)(j) The Oil-Dri Corporation of America Deferred Compensation Plan as amended and restated effective October 1, 2000.
- (10)(k) The Oil-Dri Corporation of America 1995 Long Term Incentive Plan as amended and restated effective June 9, 2000.
- (10)(n) The Oil-Dri Corporation of America Outside Director Stock Plan as amended and restated effective October 16, 1999.
- (11) Computation of Net Income per share
- (21) Subsidiaries of the Registrant
- (23) Consent of Blackman Kallick Bartelstein, LLP
- (27) Financial Data Schedule

Note: Shareholders may receive copies of the above listed exhibits, without fee, by written request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213