

OIL DRI CORP OF AMERICA  
Form 10-K  
October 10, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended July 31, 2008**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

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

**Commission File Number 0-8675**

**OIL-DRI CORPORATION OF AMERICA**

**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 60611-4213**  
**(312) 321-1515**

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

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

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

**None**

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

Yes  No

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

Yes  No

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

Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Yes  No

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of January 31, 2008 for accelerated filer purposes was \$100,149,000.

The aggregate market value of Oil-Dri's Common Stock owned by non-affiliates as of September 30, 2008 was \$85,501,000.

Number of shares of each class of Oil-Dri's capital stock outstanding as of September 30, 2008:

Common Stock  5,136,158 shares  
Class B Stock  1,914,797 shares  
Class A Common Stock  0 shares

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference: Oil-Dri's Proxy Statement for its 2008 Annual Meeting of Stockholders (Proxy Statement), which will be filed with the Securities and Exchange Commission not later than November 28, 2008 (120 days after the end of Oil-Dri's fiscal year ended July 31, 2008), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.

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**FORWARD-LOOKING STATEMENTS**

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

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

### **TRADEMARK NOTICE**

Oil-Dri, Agsorb, Cat's Pride, Jonny Cat, KatKit, ConditionAde, PelUnite, Perform, Select, Pure-Flo, Ultra-Clear, Poultry Guard, Flo-Fre, and Terra Green are all registered trademarks of Oil-Dri Corporation of America or of its subsidiaries. Pro's Choice and Saular are trademarks of Oil-Dri Corporation of America. Fresh Step is a registered trademark of The Clorox Company.

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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; the Illinois corporation was the successor to a partnership that commenced business in 1941. Except as otherwise indicated herein or as the context otherwise requires, references herein to "Oil-Dri," the "Company," "we," "us" or "our" are to Oil-Dri Corporation of America and its subsidiaries.

#### **GENERAL BUSINESS DEVELOPMENTS**

During our fiscal year 2008 we raised selling prices to contend with cost increases for energy and other commodities. We were impacted by increases in the costs of diesel fuel used to transport our products, natural gas and recycled fuel oil used to dry our clay and paper and resin materials used to package our products. In addition to strategic pricing initiatives, we continued our cost reduction efforts at our manufacturing facilities and in our procurement programs. We also continued to strongly support research and development to improve our existing products and processes and to develop new products.

Our increased selling prices notwithstanding, during fiscal 2008 we increased our total tons sold. The weak U.S. dollar relative to many foreign currencies provided opportunities in the global marketplace for our fluids purification and filtration and animal health products. The biodiesel industry provided additional opportunities for fluids purification and filtration products. Our consumer products continued to face a highly competitive retail market created by high-volume retail stores. In addition, the traditional applications of some of our agricultural chemical carrier products remain challenged by new technologies. Our margins declined during fiscal 2008 as higher costs exceeded the benefits of selling price increases, higher tons sold and our cost saving efforts.

#### **PRINCIPAL PRODUCTS**

We are a leader in developing, manufacturing and marketing sorbent products. Our sorbent products are principally produced from clay minerals and, to a lesser extent, other sorbent materials. Our sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of our absorbent clay products are Cat's Pride and Jonny Cat premium cat litter and other cat litters. We also produce Oil-Dri branded floor absorbents, Agsorb granular agricultural chemical carriers and ConditionAde animal feed binders. Adsorbent products attract liquids, impurities, metals and surfactants to themselves and form low-level chemical bonds. Examples of our adsorbent products are Oil-Dri synthetic sorbents, which are used for industrial cleanup, and Pure-Flo, Perform and Select bleaching clay products, which act as a filtration media for edible oils, fats and tallows. Also, our Ultra-Clear product serves as a clarification aid for petroleum-based oils and by-products. Both our absorbent and adsorbent products are described in more detail below.

### Cat Litter Products

We produce two types of cat litter products, traditional coarse and scoopable. Coarse litters have absorbent and odor controlling characteristics. Scoopable litters have the additional characteristic of clumping when exposed to moisture, allowing the consumer to selectively dispose of the used portion of the litter. Our coarse and scoopable products are sold under our Cat's Pride and Jonny Cat brand names. We also package and market Cat's Pride Kat Kit and Jonny Cat cat litter in a disposable tray, as well as Jonny Cat litter pan liners. We manufacture the Fresh Step brand of coarse cat litter for The Clorox Company (Clorox) and other private label cat litters. These other private label products are sold through independent food brokers and our sales force to major retail outlets.

We have three long-term supply arrangements (only one of which is material) under which we manufacture branded traditional litters for other marketers. Under these co-manufacturing relationships, the marketer controls all aspects of sales, marketing, and distribution, as well as the odor control formula, and we are responsible for manufacturing. Our material agreement is with Clorox under which Clorox has developed Fresh Step premium coarse cat litter products and under which we have an exclusive right to supply Clorox's requirements for Fresh Step coarse cat litter up to certain levels.

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### Industrial and Automotive Sorbent Products

We manufacture products from both clay and synthetic materials that absorb oil, grease, water and other types of spills. These products are used in industrial, home and automotive environments. Our clay-based sorbent products, such as Oil-Dri branded floor absorbent, are used for floor maintenance in industrial applications to provide a non-slip and nonflammable surface for workers. These floor absorbents are used in automotive repair facilities and car dealerships to absorb oil and grease. They are also used in home applications in garages and driveways. Our Oil-Dri branded synthetic-based products use polypropylene materials. These products are sold in various forms, such as pads, rolls, socks and spill kits. These products are used to absorb oil, grease, water and most chemical spills.

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

### Bleaching Clay and Clarification Aid Products

We produce an array of bleaching, purification and filtration applications used by edible oil and jet fuel processors around the world. Our brands include Pure-Flo, Perform and Select adsorbents as well as our Ultra-Clear clarification line. Bleaching clays are used by edible oil processors to adsorb soluble contaminants that create oxidation problems. Our Pure-Flo and Perform bleaching clays remove impurities, such as trace metals, chlorophyll and color bodies, in various types of edible oils. Perform products provide increased activity for hard-to-bleach oils. Our Select adsorbents are used to remove contaminants in vegetable oil processing and can be used to prepare oil prior to the creation of biodiesel fuel. Ultra-Clear is a clarification aid used as filtration and purification mediums for jet fuel and other petroleum-based products.

These products are marketed in the United States and in international markets. The products are supported by our team of technical sales employees as well as by agent representatives and the services of our research and development group.

### Agricultural and Horticultural Products

We produce a wide range of granular and powdered mineral absorbent products that are used as carriers for crop protection chemicals, agricultural drying agents, bulk processing aids, growing media components and sports field products. Our brands include: Agsorb, an agricultural chemical carrier and a drying agent; Flo-Fre, a highly absorbent microgranule flowability aid; Terra-Green, a growing media supplement; and Pro's Choice, a sports field conditioner.

Agsorb carriers are used as an alternative to agricultural sprays. The clay granules absorb crop protection chemicals and are then delivered directly into the ground resulting in a more precise application than chemical sprays. Agsdry agent is blended into fertilizer-pesticide blends applied by farmers to absorb moisture and improve flowability. Agsdry also acts as a flowability aid for fertilizers and chemicals used in the lawn and garden market. Flo-Fre microgranules are used by grain processors and other large handlers of bulk products to soak up excess moisture. We employ technical sales people to market agricultural products in the United States.

Pro's Choice sports field products are used on baseball, football and soccer fields and on golf courses. Pro's Choice soil conditioners are used in field construction or as top dressing to absorb moisture, suppress dust and improve field performance. These products are used to amend sand-based golf green construction, as well as other areas such as tees and fairways, to help retain moisture and nutrients for better grass growth. Pro Mound packing clay is used to construct pitcher's mounds and batter's boxes. Rapid Dry drying agent is used to dry up puddles and slick spots after rain. Sports field products are used at all levels of play, including professional, college and high school and on municipal fields. These products are sold through a network of distributors specializing in sports turf products.

#### Animal Health and Nutrition Products

We produce several products that are used in the livestock feed industry. ConditionAde branded products are used in animal feed to absorb naturally-occurring mycotoxins in the feed and thereby improve animal health and productivity. PelUnite and PelUnite Plus are specialized animal feed binders used in the manufacture of pelleted feeds. These products are sold through a network of feed products distributors in the United States and primarily through exclusive distribution agreements with animal health and nutrition products distributors in Latin America and Asia.

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## **BUSINESS SEGMENTS**

We have two reportable operating segments for financial reporting derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group.

The Retail and Wholesale Products Group customers include mass merchandisers, wholesale clubs, drugstore chains, pet retail outlets, dollar stores, retail grocery stores, distributors of industrial cleanup and automotive products and environmental service companies. Business to Business Products Group customers include processors and refiners of edible oils, petroleum-based oils and biodiesel fuel, manufacturers of animal feed and agricultural chemicals, marketers of consumer products and sports turf users. Certain financial information on both segments is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

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

## **FOREIGN OPERATIONS**

Our wholly-owned subsidiary, Favorite Products Company, Ltd., is a manufacturer and marketer of branded and private label cat litter in the Canadian market place. Among its leading brands are Saular, Cat's Pride and Jonny Cat. Our Canadian business also sells clay industrial granule floor absorbents, synthetic polypropylene sorbent materials and agricultural chemical carriers.

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

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Our wholly-owned subsidiary, Oil-Dri SARL, is a Swiss company that performs various management, customer service and administrative functions for our domestic operations and for our foreign subsidiaries.

Our 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. We were not materially impacted by these foreign currency fluctuations in any of our last three fiscal years. Certain financial information about our foreign and domestic operations is contained in Note 3 of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

### **CUSTOMERS**

Sales to Wal-Mart Stores, Inc. and its affiliates accounted for approximately 25%, 23% and 19% of our total net sales for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. Wal-Mart is a customer in our Retail and Wholesale Products Group segment. Sales to The Clorox Company and its affiliates accounted for approximately 8%, 8% and 9% of our total net sales for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. The Clorox Company is a customer in the Business to Business Products Group segment. There are no customers in the Business to Business Products Group with sales equal to or greater than 10% of our total sales. The degree of margin contribution of our significant customers in the Business to Business Products Group varies, with certain customers having a greater effect on our operating results. The loss of any customer other than those described herein would not be expected to have a material adverse effect on our business.

### **COMPETITION**

Price, service, marketing, technical support, product quality and delivery are the principal methods of competition in our markets and competition has historically been very vigorous. Some of our competitors are large companies whose financial resources are substantially greater than ours.

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In our Retail and Wholesale Products Group, we have five principal competitors, including some who are also customers of ours. Growth in the cat litter market has been modest in recent years. Scoopable products have a majority of the market share followed by traditional coarse products. We have expanded our scoopable product offerings and have increased our share of the coarse market through our private label products. The overwhelming majority of all cat litter is mineral based; however, alternative litters based on alternative strata such as paper, various agricultural waste products and silica gels have earned a niche position. The consumer trend away from regional grocery stores towards large national retailers has presented competitive challenges as well as opportunities. These stores enjoy substantial negotiating leverage over their suppliers, including us; however, our operations support nation-wide distribution, which gives us a potential advantage over smaller and regional manufacturers in selling to these stores.

In the Business to Business Products Group, we have 11 principal competitors. The agricultural chemical carrier portion of this segment continued to decline due to new technologies that reduced overall demand for our carrier products. These technologies include genetically modified and treated seeds (which reduce or eliminate the need for carriers) and engineered carriers (such as paper- and limestone-based carriers). The bleaching clay and fluids clarification aid portion of this Group operates in a highly cost competitive global marketplace. Product performance is also a primary competitive factor for these products. The animal health portion of this Group also operates in a global marketplace with price and performance competition from multi-national and local competitors.

### **PATENTS**

We have obtained or applied for patents for certain of our processes and products sold to customers in both the Retail and Wholesale Products Group and the Business to Business Products Group. These patents expire at various times, beginning in December 2008. We expect no material impact on our business from the expiration of patents in the next year.

### **BACKLOG; SEASONALITY**

At July 31, 2008, 2007 and 2006, our backlog of orders was approximately \$7,139,000, \$3,984,000, and \$4,649,000, respectively. The increase in backlog orders at July 31, 2008, was due to a higher net selling price and a higher number of backlog orders. The weaker U.S. dollar relative to many foreign currencies during 2008 made domestically manufactured products more attractive in many foreign markets. The increased volume of exported goods throughout the economy created difficulties securing foreign freight carriers, so we urged our international customers to place orders farther in advance to provide additional time to arrange transportation. These advance orders resulted in a higher number of back log orders at July 31, 2008. All backlog orders are expected to be filled within the next 12 months. We consider our business, taken as a whole, to be only moderately seasonal; however, business activities of certain customers (such as agricultural chemical manufacturers) are subject to such seasonal factors as crop acreage planted and product formulation cycles.

#### **EFFECTS OF INFLATION**

Inflation generally affects us by increasing the cost of employee wages and benefits, transportation, processing equipment, purchased raw materials and packaging, energy and borrowings under our credit facility. See Items 7 and Item 7A below.

#### **RESERVES**

We mine sorbent materials, commonly known as fuller's earth, on leased or owned land near our manufacturing facilities in Mississippi, Georgia, Illinois and California; we also have reserves in Nevada, Oregon and Tennessee. We estimate that our proven reserves of these sorbent materials aggregate approximately 157,234,000 tons. Based on our rate of consumption during the 2008 fiscal year, and without regard to any of our reserves in Nevada, Oregon and Tennessee, we consider our proven reserves adequate to supply our needs for over 40 years. Although we consider these reserves to be extremely valuable to our business, only a small portion of the reserves, those which were acquired in acquisitions, are reflected at cost on our balance sheet.

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It is our policy to attempt to add to reserves in most years, but not necessarily in every year, an amount at least equal to the amount of reserves consumed in that year. We have a program of exploration for additional reserves and, although reserves have been acquired, we cannot assure that additional reserves will continue to become available. Our use of these reserves, and our ability to explore for additional reserves, are subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. During the fiscal year ended July 31, 2008, we utilized these reserves to produce substantially all of the sorbent minerals that we sold.

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

#### **MINING OPERATIONS**

We have conducted mining operations in Ripley, Mississippi since 1963, in Ochlocknee, Georgia since 1968, in Blue Mountain, Mississippi since 1989, in Mounds, Illinois since 1998 and in Taft, California since 2002. Our raw materials are surface mined on a year-round basis, generally using large earth moving scrapers, bulldozers, excavators or off-road trucks to remove overburden, and then loaded into dump trucks with backhoe or front end loader for movement to the processing facilities. The mining and hauling of our clay is performed by us and by independent contractors. Our current operating mines range in distance from immediately adjacent to approximately 13 miles from the related processing plants. Access to processing facilities from the mining areas is generally by private road, and in some instances public highways are utilized. Each of our processing facilities maintains inventories of unprocessed clay of approximately one week of production requirements. The following



schedule summarizes, for each of our manufacturing facilities, the net book value of land and other plant and equipment:

	Land	Plant and Equipment (in thousands)
Ochlocknee, Georgia	\$ 3,738	\$ 17,501
Ripley, Mississippi	\$ 1,507	\$ 6,260
Mounds, Illinois	\$ 1,545	\$ 4,733
Blue Mountain, Mississippi	\$ 922	\$ 3,847
Taft, California	\$ 1,391	\$ 2,983

## EMPLOYEES

As of July 31, 2008, we employed 827 persons, 69 of whom were employed by our foreign subsidiaries. Our corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 43 of our employees in the U.S. and approximately 30 of our employees in Canada are represented by labor unions, with whom we have entered into separate collective bargaining agreements. We consider our employee relations to be satisfactory.

## ENVIRONMENTAL COMPLIANCE

Our mining and manufacturing operations and facilities in Georgia, Mississippi, California and Illinois are required to comply with state surface mining statutes and various other 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 our operations. In recent years, environmental regulation has grown increasingly stringent, a trend that we expect will continue. We endeavor to be in compliance in all material respects at all times with all applicable environmental controls and regulations. As a result, expenditures relating to environmental compliance have increased over the years; however, these expenditures have not been material. As part of our ongoing environmental compliance activities, we incur expenses in connection with reclaiming exhausted mining sites. Historically, reclamation expenses have not had a material effect on our cost of goods sold.

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

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

## ENERGY

We use natural gas, recycled fuel oil and coal as permitted for energy sources in the processing of our clay products. Consistent with prior years, we have switched among the various energy sources during certain months due to seasonal availability and cost. See Item 7A below with respect to our use of forward contracts.

## RESEARCH AND DEVELOPMENT

At our research and development facility in Vernon Hills, Illinois, we develop new products and applications and improve existing products. The facility's staff (and various consultants they engage from time to time) consists of geologists, mineralogists and chemists. In the past several years, our research efforts have resulted in a number of new sorbent products and processes. The facility produces prototype samples and tests new products for customer trial and evaluation.

We spent approximately \$2,497,000, \$2,154,000, and \$1,809,000 during the fiscal years ended July 31, 2008, 2007 and 2006, respectively, for research and development. None of this research and development was customer sponsored, and all research and development costs are expensed in the period in which incurred. See Note 1 of the Notes to the Consolidated Financial Statements.

## AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by the Company at <http://www.sec.gov>.

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

Information relating to corporate governance at Oil-Dri, including its Code of Ethics and Business Conduct, information concerning executive officers, directors and Board committees (including committee charters), and transactions in Oil-Dri securities by directors and officers, is available free of charge on or through the "Investor Information" section of our website at [www.oildri.com](http://www.oildri.com). We are not including the information on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K.

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## ITEM 1A RISK FACTORS

*In addition to the other information in this report and our other filings with the SEC, you should carefully consider the risks described below. These risks are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. If any of the following risks occur, our business, financial condition or operating results could be materially and adversely affected.*

### **Risks Related to our Business**

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

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

successful launch of a new product, the ultimate benefit we realize may be uncertain if the new product cannibalizes sales of our existing products beyond expected levels.

***We face intense competition in our markets.***

Our markets are highly competitive and we expect that both direct and indirect competition will increase in the future. Our overall competitive position depends on a number of factors including price, customer service and technical support, product quality and delivery. Some of our competitors, particularly in the sale of cat litter (the largest product in our Retail and Wholesale Products Group), are much larger and have substantially greater financial resources. The competition in the future may, in some cases, result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business, operating results and financial condition. If we fail to compete successfully based on these or other factors, our business and future financial results could be materially and adversely affected.

***Our quarterly results may be volatile.***

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

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

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- our ability to successfully implement price increases and surcharges, as well as other changes in our pricing policies or those of our competitors;
- variations in purchasing patterns by our customers;
- the ability of major customers and other debtors to meet their obligations to us as they come due;
- our ability to successfully manage regulatory, tax and legal matters;
- the incurrence of restructuring, impairment or other charges; and
- general economic conditions and specific economic conditions in our industry and the industries of our customers.

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

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

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

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

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

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

A limited number of customers account for a large percentage of our net sales. Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 25%, 23% and 19% of our net sales for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. Sales to The Clorox Company and its affiliates accounted for approximately 8%, 8% and 9% of our net sales for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. The loss of or a substantial decrease in the volume of purchases by Wal-Mart, Clorox or any of our other top customers would harm our sales and profitability.

We expect that a significant portion of our net sales will continue to be derived from a small number of customers and that the percentage of net sales represented by these customers may increase. As a result, changes in the strategies of our largest customers, including a reduction in the number of brands they carry (or a shift of shelf space to private label products) or increased use of global or centralized procurement initiatives, may harm our sales. In addition, our business is based primarily upon individual sales orders and we typically do not enter into long-term contracts with our customers. While we do have long-term contracts with certain of our customers, including Clorox, such agreements are subject to termination in certain circumstances. Accordingly, any of these customers could reduce their purchasing levels or cease buying products from us on relatively short notice. In addition, the degree of profit margin contribution of our significant customers varies. If a significant customer with a more favorable profit margin was to terminate its relationship with us, it would have a disproportionate adverse impact on our results of operations. If we lose a significant customer or if sales of our products to a significant customer materially decrease, it may have a material adverse effect on our business, financial condition and results of operations.

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***Providing price concessions or trade terms that are acceptable to our customers, or the failure to do so, could adversely affect our sales and profitability.***

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

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

If our energy costs increase disproportionately to our net sales, our earnings could be significantly reduced. Because we use energy, including natural gas, fuel oil, coal, electricity, diesel fuel and gasoline, to manufacture and transport our products, our operating costs increase if our energy costs rise. Our energy costs have risen substantially over the last four years. Increases in energy costs increase our operating costs and may reduce our profitability if we are unable to pass all the increases on to our customers. During periods of higher energy costs, we may not be able to recover our operating cost increases through price increases or surcharges.

Our most significant energy requirements typically are for natural gas and fuel oil. We are subject to volatility in the price and availability of natural gas and fuel oil, as well as other sources of energy. In the past, we have endeavored to reallocate a portion of our energy needs among these different sources due to seasonal supply limitations and the higher cost of one particular fuel relative to other fuels; however, our energy costs, including alternatives to natural gas, have risen substantially in recent periods, and there can be no assurance that we will be able to effectively reallocate among different fuels in the future. From time to time, we may use forward purchase contracts or financial instruments to hedge the volatility of a portion of our natural gas and fuel oil costs. The success or failure of any such hedging transactions depends on a number of factors including, but not limited to, our ability to anticipate and manage volatility in energy prices, the general demand for natural gas and fuel oil by the manufacturing sector, seasonality and the weather patterns throughout the United States and the world.

The prices of other commodities such as paper, plastic resins, synthetic rubber and steel significantly influence the costs of packaging, replacement parts and equipment we use in the manufacture of our products and the maintenance of our facilities. The prices of these commodities, and the costs of the related materials we use, have also risen substantially over the last four years, and may continue to rise in the future. These increased materials costs present the same types of risks as described above with respect to increased energy costs.

***Reductions in inventory by our customers could adversely affect our sales and increase our inventory risk.***

From time to time, customers in both our Retail and Wholesale Products Group and our Business to Business Products Group have reduced inventory levels as part of managing their working capital requirements. Any reduction in inventory levels by our customers would harm our operating results for the financial periods affected by the reductions. In particular, continued consolidation within the retail industry could potentially reduce inventory levels maintained by our retail customers, which could adversely affect our results of operations for the financial periods affected by the reductions. Similarly, inventory reductions by our agricultural chemical carrier customers or our contract cat litter manufacturing customers could also adversely affect our results of operations for the financial periods in which the reductions occur.

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

***Increasing market acceptance of genetically enhanced and treated agricultural products, particularly genetically modified and treated seeds, could continue to adversely affect our business.***

In our Business to Business Products Group, we sell clay granules which are used by agricultural chemical formulators as carriers for crop protection chemicals, including herbicides, fungicides and insecticides. The increased use of genetically modified and treated seeds has reduced the need for certain crop production chemicals (and the carriers for those chemicals) in the past and may continue to do so in the future. Demand for these products could also be adversely affected by increased consumer acceptance of genetically modified products, as well as governmental policies, laws and regulations that affect the development, manufacture and distribution of those products.

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

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

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

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

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

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

We are also experiencing increasing customer scrutiny of the content and manufacturing of our products, particularly our products entering or affecting the food chain, in parallel with the increasing government regulation discussed above. Our customers may impose product specifications or other requirements that are

different from, and more onerous than, applicable laws and regulations. As a result, the failure of our products to meet these additional requirements may result in loss of customers and decreased sales of our products even in the absence of any actual failure to comply with applicable laws and regulations. There can be no assurance that future customer requirements concerning the content or manufacturing of our products will not have a material adverse effect on our business.

***We depend on our mining operations for substantially all of our supply of sorbent minerals.***

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

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

We have an ongoing program of exploration for additional reserves on existing properties as well as through the potential acquisition of new owned or leased properties; however, we cannot provide assurances that our attempts to acquire additional reserves in the future will be successful. Our ability to acquire additional reserves in the future could be limited by competition from other companies for attractive properties, the lack of suitable properties that can be acquired on terms acceptable to us or restrictions under our existing or future debt facilities. We may not be able to negotiate new leases or obtain mining contracts for properties containing additional reserves or renew our leasehold interests in properties on which operations are not commenced during the term of the lease. Also, requirements for environmental compliance may restrict exploration or use of lands that might otherwise be utilized as a source of reserves.

***We face risks as a result of our international sales and business operations.***

We derived approximately 18% of our net sales from sales outside of the United States in the fiscal year ended July 31, 2008. Our ability to sell our products and conduct our operations outside of the United States is subject to a number of risks. Local economic, political and labor conditions in each country could adversely affect demand for our products or disrupt our operations in these markets, particularly when local political and economic conditions are unstable. In addition, international sales and operations are subject to currency exchange fluctuations, fund transfer restrictions and import/export duties, and international operations are subject to foreign regulatory requirements and issues, including with respect to environmental matters. Any of these matters could result in sudden, and potentially prolonged, changes in demand for our products. Also, we may have difficulty enforcing agreements and collecting accounts receivable through a foreign country's legal system.

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***We may face product liability claims that are costly and create adverse publicity.***

If any of the products that we sell cause harm to any of our customers or to consumers, we could be exposed to product liability lawsuits. If we are found liable under product liability claims, we could be required to pay substantial monetary damages. Further, even if we successfully defend ourselves against this type of claim, we could be forced to spend a substantial amount of money in litigation expenses, our management could be required to spend valuable time in the defense against these claims and our reputation could suffer, any of which could harm our business.

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

Section 404 of the Sarbanes-Oxley Act and related SEC rules require that we perform an annual management assessment of the design and effectiveness of our internal control over financial reporting and obtain an opinion from our independent registered public accounting firm on our internal control over financial reporting. Our assessment concluded that our internal control over financial reporting was effective as of July 31, 2008 and we obtained from our independent registered public accounting firm an unqualified opinion on our internal control over financial reporting; however, there can be no assurance that we will be able to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time in future periods. Accordingly, we cannot assure that we will be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our Common Stock could drop significantly.

### **Risks Related to Our Common Stock**

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

Under our Certificate of Incorporation, the holders of our Common Stock are entitled to one vote per share and the holders of our Class B Stock are entitled to 10 votes per share; the two classes generally vote together without regard to class (except that any amendment to our Certificate of Incorporation changing the number of authorized shares or adversely affecting the rights of Common Stock or Class B Stock requires the separate approval of the class so affected as well as the approval of both classes voting together). As a result, the holders of our Class B Stock exert control over us and thus limit the ability of other stockholders to influence corporate matters. Beneficial ownership of Common Stock and Class B Stock by the Jaffee Investment Partnership, L.P., and its affiliates (including Richard M. Jaffee, our Chairman, and Daniel S. Jaffee, his son and our President and Chief Executive Officer) provides them with the ability to control the election of our Board of Directors and the outcome of most matters requiring the approval of our stockholders, including the amendment of certain provisions of our Certificate of Incorporation and Bylaws, the approval of any equity-based employee compensation plans and the approval of fundamental corporate transactions, including mergers and substantial asset sales. Through their concentration of voting power, our principal stockholders may be able to delay, deter or prevent a change in control of our company or other business combinations that might otherwise be beneficial to our other stockholders.

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***We are a [controlled company] within the meaning of the New York Stock Exchange rules and, as a result, qualify for, and intend to rely on, exemptions from certain corporate governance requirements.***

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

- that a majority of the board of directors consists of independent directors;
- that we have a nominating and governance committee, and that this committee be composed entirely of independent directors and governed by a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- that we conduct an annual performance evaluation of the nominating and corporate governance and compensation committees.

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

***The market price for our Common Stock may be volatile.***



In recent periods, there has been volatility in the market price for our Common Stock. Furthermore, the market price of our Common Stock could fluctuate substantially in the future in response to a number of factors, including the following:

- fluctuations in our quarterly operating results or the operating results of our competitors;
- changes in general conditions in the economy, the financial markets, or our industry;
- announcements of significant acquisitions, strategic alliances or joint ventures by us, our customers or our competitors;
- introduction of new products or services;
- increases in the price of energy sources and other raw materials; and
- other developments affecting us, our industry, customers or competitors.

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

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

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

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**ITEM 1B □ UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2 □ PROPERTIES**

**Real Property Holdings and Mineral Reserves**

	<b>Land Owned (acres)</b>	<b>Land Leased (acres)</b>	<b>Land Unpatented claims (acres)</b>	<b>Total (acres)</b>	<b>Estimated proven reserves (000's of tons)</b>	<b>Estimated probable reserves (000's of tons)</b>	<b>Total (000's of tons)</b>
California	795	--	1,030	1,825	5,229	11,226	16,455
Georgia	2,157	2,006	--	4,163	30,042	12,018	42,060
Illinois	82	598	--	680	6,592	5,032	11,624
Mississippi	2,182	978	--	3,160	89,055	95,149	184,204
Nevada	535	--	--	535	23,316	2,976	26,292
Oregon	340	--	--	340	--	45	45
Tennessee	178	--	--	178	3,000	3,000	6,000
	6,269	3,582	1,030	10,881	157,234	129,446	286,680

We have no mortgages on the real property we own. The Mississippi, Georgia, Tennessee, Nevada, California and Illinois properties are primarily mineral in nature. Parcels of such land are also sites of manufacturing facilities operated by us. The Illinois land also includes the site of our research and development facility. We own

approximately one acre of land in Laval, Quebec, Canada, which is the site of the processing and packaging facility for our Canadian subsidiary.

Our mining operations are conducted on leased or owned land. The Georgia, Illinois and Mississippi mining leases generally require that we pay a minimum monthly rental to continue the lease term. The rental payments are generally applied against a stated royalty related to the number of unprocessed, or in some cases processed, tons of mineral extracted from the leased property. Many of our mining leases have no stated expiration dates. Some of our Georgia leases, however, do have expiration dates ranging from 2009 to 2053. We would not experience a material adverse effect from the expiration or termination of any of these leases. We have a variety of access arrangements, some of which are styled as leases, for manufacturing at facilities that are not contiguous with the related mines. We would not experience a material adverse effect from the expiration or termination of any of these arrangements. See also Item 1 above, Business Reserves, for further information on our reserves.

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

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#### Facilities

Location	Owned/Leased	Function
Alpharetta, Georgia	Leased	Non-clay processing and warehousing
Blue Mountain, Mississippi	Both	Clay mining, manufacturing and packaging
Chicago, Illinois	Leased	Principal executive office
Mounds, Illinois	Owned	Clay mining, manufacturing and packaging
Coppet, Switzerland	Leased	Customer service office
Laval, Quebec, Canada	Owned	Non-clay production and packaging
Ochlocknee, Georgia	Owned	Clay mining, manufacturing and packaging
Ripley, Mississippi	Owned	Clay mining, manufacturing and packaging
Taft, California	Owned	Clay mining, manufacturing and packaging
Vernon Hills, Illinois	Owned	Research and development
Wisbech, United Kingdom	Both	Non-clay production and packaging

The lease for the Alpharetta, Georgia facility expires in 2013. A portion of the Blue Mountain, Mississippi facility is leased from the Town of Blue Mountain in connection with industrial revenue bond financing we obtained in 1988. See Note 4 of the Notes to the Consolidated Financial Statements. Upon expiration of the relevant leases and full payment of the bonds (which occurred in October 2008), we have the right to purchase the leased property for \$100. We expect to exercise this right in due course. The lease for the Chicago, Illinois corporate office space expires in 2018. The lease for the Wisbech, United Kingdom facility expires in 2032. The lease for the Coppet, Switzerland office is on a year-to-year basis. We consider that our properties are generally in good condition, are well maintained and are suitable and adequate to carry on our business.

### ITEM 3 LEGAL PROCEEDINGS

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

these or other lawsuits, we believe that none of the pending proceedings will have a material adverse effect on our business or financial condition.

#### ITEM 4 □ SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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## PART II

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

Our Common Stock is traded on the New York Stock Exchange under the symbol ODC. There is no established trading market for our Class B Stock. The number of holders of record of Common Stock and Class B Stock on September 30, 2008 were 713 and 30, respectively, as reported by our transfer agent. There are no shares of Class A Common Stock currently outstanding. In the last three years, we have not sold any securities which were not registered under the Securities Act.

On June 6, 2006, during our fiscal year 2006, our Board of Directors announced a five-for-four stock split, to be effected by a stock dividend of one-quarter share for each outstanding share of Common Stock and Class B Stock. The stock dividend was paid on September 8, 2006 to stockholders of record at the close of business on August 4, 2006. All shares outstanding, earnings per share numbers and balance sheet values reflect the impact of the stock dividend.

The following table sets forth, for the periods indicated, the high and low sales price for the Common Stock on the New York Stock Exchange and dividends per share paid on the Common Stock and Class B Stock.

	Common Stock Price Range		Cash Dividends Per Share	
	Low	High	Common Stock	Class B Common Stock
<b>Fiscal 2007:</b>				
First Quarter	\$12.83	\$16.19	\$0.1200	\$0.0900
Second Quarter	15.32	18.25	0.1200	0.0900
Third Quarter	15.79	18.83	0.1200	0.0900
Fourth Quarter	16.31	18.57	0.1300	0.0975
Total			0.4900	0.3675
<b>Fiscal 2008:</b>				
First Quarter	\$15.00	\$20.25	\$0.1300	\$0.0975
Second Quarter	18.80	23.60	0.1300	0.0975
Third Quarter	17.00	20.74	0.1300	0.0975
Fourth Quarter	14.95	20.70	0.1400	0.1050
Total			0.5300	0.3975

**Dividends.** Our Board of Directors determines the timing and amount of any dividends. The declaration and payment of future dividends, if any, will depend, among other things, upon our future earnings, capital requirements, financial condition, legal requirements, contractual restrictions and other factors that our board of directors deems relevant. Our 1998 Note Agreement with Prudential Financial, our Credit Agreement with Harris N.A. dated January 27, 2006 and our 2005 Note Agreement with The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company require that certain minimum net worth and tangible net worth levels are to be maintained. To the extent that these balances are not attained, our ability to pay

dividends may be impaired. See Note 4 of the Notes to the Consolidated Financial Statements. Our Board of Directors may change its dividend practice at any time.

**Issuer Repurchase of Equity Securities.** We did not repurchase any shares of our Common Stock or Class B Stock in the three months ended July 31, 2008, and no shares of our Class A Common Stock are currently outstanding. Descriptions of our Common Stock, Class B Stock and Class A Common Stock are contained in Note 6 of the Notes to the Consolidated Financial Statements. On October 5, 2005, our Board of Directors authorized the repurchase of up to 500,000 shares of Common Stock, with repurchases to be made from time to time in the discretion of our management and in accordance with applicable laws, rules and regulations. This authorization does not have a stated expiration date. As of July 31, 2008, 313,822 shares of Common Stock may yet be repurchased under this authorization. We do not have any current authorization from our Board of Directors to repurchase shares of Class B Stock, and no shares of Class A Common Stock are currently outstanding.

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## PERFORMANCE GRAPH

The following graph shows the annual cumulative total stockholders' return for the five years ending July 31, 2008, on an assumed investment of \$100 on July 31, 2003, in our Common Stock, the Russell Microcap Index and the Russell 2000-Material and Processing Economic Sector Index. Our Common Stock is included in the Russell Microcap Index and we consider the Russell 2000-Material and Processing Economic Sector Index to be our peer group. The graph assumes all dividends were reinvested. The historical stock price performance of our Common Stock is not necessarily indicative of future stock performance.

### Comparative Five-Year Total Returns

#### Oil-Dri Corporation, Russell Microcap, Russell 2000-Materials & Processing

(Performance results through 7/31/2008)

		2003	2004	2005	2006	2007	2008
<b>ODC</b>	o	\$100.00	\$140.82	\$158.91	\$180.54	\$193.71	\$205.71
<b>Russell Microcap</b>	△	\$100.00	\$118.27	\$143.86	\$147.87	\$162.99	\$136.72
<b>Russell 2000-Materials &amp; Processing</b>	◇	\$100.00	\$134.02	\$172.26	\$201.51	\$267.41	\$271.38

This performance graph and accompanying disclosure is not soliciting material, is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference in any of our filings under the Securities Act or the Exchange Act, whether made on, before or after the date of this filing and irrespective of any general incorporation language in such filing.

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## ITEM 6 □ SELECTED FINANCIAL DATA

### FIVE YEAR SUMMARY OF FINANCIAL DATA

(IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

	Fiscal Year Ended July 31,				
	2008	2007	2006	2005	2004
<b>Summary of Operations</b>					
Net Sales	\$ 232,359	\$ 212,117	\$ 205,210	\$ 187,868	\$ 185,511
Cost of Sales (1)	(186,289)	(166,417)	(167,136)	(147,513)	(142,263)
Gross Profit	46,070	45,700	38,074	40,355	43,248
Other Contractual Income & Charges	--	--	--	--	(1,250)

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Loss on Impaired Long-Lived Assets	--	--	--	--	(464)
Gain on the Sale of Long-Lived Assets	--	--	415	--	--
Selling, General and Administrative Expenses (2)	<b>(33,340)</b>	(35,163)	(29,735)	(30,470)	(32,975)
Income from Operations	<b>12,730</b>	10,537	8,754	9,885	8,559
Other Income (Expense)					
Interest Income	<b>1,070</b>	1,415	1,106	464	222
Interest Expense	<b>(2,189)</b>	(2,389)	(2,255)	(1,758)	(2,079)
Foreign Exchange (Losses) Gains	<b>165</b>	(23)	(95)	(244)	(26)
Other, Net (3)	<b>399</b>	905	386	585	255
Total Other Expense, Net	<b>(555)</b>	(92)	(858)	(953)	(1,628)
Income before Income Taxes	<b>12,175</b>	10,445	7,896	8,932	6,931
Income Taxes	<b>(3,136)</b>	(2,785)	(2,637)	(2,392)	(1,898)
Net Income	<b>\$ 9,039</b>	\$ 7,660	\$ 5,259	\$ 6,540	\$ 5,033
<b>Average Shares Outstanding</b>					
Diluted (4)	<b>7,215</b>	7,028	7,219	7,455	7,452
<b>Net Income per Share</b>					
Diluted (4)	<b>\$ 1.25</b>	\$ 1.09	\$ 0.73	\$ 0.88	\$ 0.68
<b>Important Highlights</b>					
Total Assets	<b>\$ 148,988</b>	\$ 142,087	\$ 139,547	\$ 123,571	\$ 128,875
Long-Term Debt	<b>\$ 21,500</b>	\$ 27,080	\$ 31,160	\$ 20,240	\$ 23,320
Working Capital	<b>\$ 52,550</b>	\$ 50,895	\$ 48,589	\$ 40,562	\$ 40,945
Working Capital Ratio	<b>2.7</b>	2.9	2.8	2.8	2.5
Book Value per Share	<b>\$ 12.66</b>	\$ 11.91	\$ 10.73	\$ 10.76	\$ 10.55
Dividends Declared	<b>\$ 3,463</b>	\$ 3,117	\$ 2,598	\$ 2,251	\$ 2,050
Capital Expenditures	<b>\$ 7,302</b>	\$ 7,757	\$ 10,827	\$ 7,311	\$ 6,067
Depreciation and Amortization	<b>\$ 7,455</b>	\$ 7,498	\$ 7,212	\$ 7,429	\$ 8,057
Net Income as a Percent of Net Sales	<b>3.9%</b>	3.6%	2.6%	3.5%	2.7%
Return on Average Stockholders' Equity	<b>10.8%</b>	10.0%	7.2%	9.0%	7.1%
Gross Profit as a Percent of Net Sales	<b>19.8%</b>	21.5%	18.6%	21.5%	23.3%
Operating Expenses as a Percent of Net Sales	<b>14.3%</b>	16.6%	14.3%	16.2%	18.7%

(1) In fiscal 2008, cost of sales was reduced by pre-tax net proceeds of \$831,000 from the sale of emission reduction credits to unaffiliated third parties. See Note 2 of the Notes to the Consolidated Financial Statements.

(2) In fiscal 2004, selling, general and administrative expenses included \$700,000 of defense costs associated with the settlement of patent infringement litigation.

(3) In fiscal 2007, Other Income (Expense) included pre-tax proceeds of \$389,000 from life insurance on former employees.

(4) Average shares outstanding and net income (loss) per share for fiscal years 2004 through 2006 have been restated to reflect a five-for-four stock split, effected by a stock dividend of one-quarter share for each outstanding share of Common Stock and Class B Stock. The Board announced the stock dividend on June 6, 2006, during our fiscal year 2006. The stock dividend was paid on September 8, 2006 to stockholders of record at the close of business on August 4, 2006.

**ITEM 7 □ MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the*

*results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under [Forward-Looking Statements] and Item 1A (Risk Factors) in this Annual Report on Form 10-K.*

## **OVERVIEW**

We develop, mine, manufacture and market sorbent products principally produced from clay minerals and, to a lesser extent, other sorbent materials. Our principal products include cat litter, industrial and automotive floor absorbents, fluids purification and filtration bleaching clays, agricultural chemical carriers, animal health and nutrition products and sports field products. Our products are sold to two primary customer groups, including customers who resell our products as originally produced to the end customer and those who use our products as part of their production process or use them as an ingredient in their final finished product. We have two reportable operating segments, the Retail and Wholesale Products Group and the Business to Business Products Group. Each operating segment is discussed individually below. Additional detailed descriptions of the operating segments are included in Item 1 Business above.

We reported net income of \$9,039,000, or \$1.25 per diluted share, for the year ended July 31, 2008, an 18% increase over net income of \$7,660,000, or \$1.09 per diluted share, for the year ended July 31, 2007. Net income was positively impacted by increases in our average net selling price and total tons sold. During fiscal 2008 we raised selling prices to contend with cost increases in energy and other commodities. We were impacted by increases in the costs of diesel fuel used to transport our products, natural gas and recycled fuel oil used to dry our clay and paper and resin materials used to package our products. Our ongoing procurement cost savings programs and manufacturing efficiency improvements helped address these cost challenges. We also continued to strongly support research and development to improve our existing products and processes and to develop new products. Despite these cost saving efforts and selling price increases, our margins declined during fiscal 2008. The Retail and Wholesale Products Group operates in a highly competitive marketplace and was unable to raise selling prices to the extent of the increased costs. The Business to Business Products Group benefited from opportunities in domestic markets, including the biodiesel industry, and from opportunities in the global marketplace due to the weak U.S. dollar relative to many foreign currencies.

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## **RESULTS OF OPERATIONS**

### **FISCAL 2008 COMPARED TO FISCAL 2007**

Consolidated net sales for the year ended July 31, 2008 were \$232,359,000, an increase of 10% from net sales of \$212,117,000 in fiscal 2007. Both our Retail and Wholesale Products Group and our Business to Business Products Group contributed to the sales improvement. Our focus on strategic pricing company-wide to contend with rising costs resulted in an increased average net selling price. In addition, total tons sold for fiscal year 2008 increased 5%. Net income for the year was \$9,039,000, an increase of 18% from net income of \$7,660,000 in fiscal 2007. Net income was positively impacted by higher net selling prices, increased tons sold and an \$831,000 reduction in cost of sales from the sale of emission reduction credits, as described in Note 2 of the Notes to the Consolidated Financial Statements. Net income was negatively affected by higher freight, materials and packaging costs. Freight costs increased significantly due to record high fuel prices which impacted our truck, rail and ship distribution channels. Materials costs were driven upward by the high cost of fuel used to dry our clay-based products and to transport raw materials. The cost of purchased packaging materials increased due to price increases in the resin and paper markets. The Business to Business Products Group contributed to the improved net income as higher net selling prices overcame lower volume and increased costs; however, in the Retail and Wholesale Products Group the higher costs prevailed over increases in both net selling prices and volume.

### **BUSINESS TO BUSINESS PRODUCTS GROUP**

Net sales of the Business to Business Products Group for fiscal 2008 were \$75,048,000, an increase of \$5,436,000, or 8%, from net sales of \$69,612,000 in fiscal 2007. Total tons sold for the Group were down 3% compared to fiscal 2007; however, higher net selling prices provided for increased sales in fiscal 2008. Net sales of fluids purification products, co-packaged cat litter products and animal health and nutrition products all increased. Net sales of bleaching earth and fluids purification products increased 22% due to higher net selling prices and 8% more tons sold. The increased tonnage was the result of additional business opportunities in both

domestic and export markets and in the biodiesel production industry. Our co-packaged traditional coarse cat litter net sales were up 4% in fiscal 2008. Selling price increases and a new co-packaging customer offset a 4% decline in tons sold. Tons sold decreased as coarse cat litter sales continued to decline in the overall cat litter market while scoopable cat litter sales continued to increase. Net sales of animal health and nutrition products rose 10% primarily due to increased tons sold and increased net selling prices for our mycotoxin binder and animal feed binder products. In contrast, net sales of agricultural chemical carriers were down 5% due to 11% lower tons sold caused by continued market erosion from the growth of genetically modified seed and seed treatments. Tons sold for the Group's Flo-Fre product line (a by-product of the manufacture of our agricultural chemical carriers) also declined; however, the impact of lower volume was offset by a higher net selling price which resulted in an increase in net sales. Net sales of sports field products were down as the result of the loss of a customer.

The Business to Business Products Group's operating income increased 19% to \$15,782,000 in fiscal 2008 from \$13,302,000 in fiscal 2007. Selling prices increases were partially offset by approximately 6% higher combined freight, materials and packaging costs. Freight costs increased approximately 23% due to higher diesel fuel prices. Packaging costs were driven upward by price increases in the resin and paper markets. Selling and administrative expenses were only 1% higher in fiscal 2008 compared to fiscal 2007.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal 2008 were \$157,311,000, an increase of \$14,806,000, or 10%, from net sales of \$142,505,000 reported in fiscal 2007. The net sales growth was driven by increases in both overall net selling prices and tons sold. The Group's total tons sold were up 9%, including an 18% increase in cat litter tons. Net sales of private label cat litter increased 35% due to selling price increases and 29% more volume. The higher volume was the result of expanded distribution to existing customers, as well as distribution to new customers. The Group's net sales were also positively impacted by reduced trade spending costs (trade spending costs are reported as a reduction of net sales). Partially offsetting these net sales increases was a 1% reduction in branded cat litter net sales due to loss of a customer. Net sales of synthetic and clay-based industrial absorbents were also both down 1% due to lower volume.

The Retail and Wholesale Products Group's operating income decreased 7% to \$14,973,000 in fiscal 2008 from \$16,162,000 in fiscal 2007 due to higher costs. The Group's combined freight, materials and packaging costs increased approximately 6% during fiscal 2008. Record high fuel prices resulted in freight costs approximately 16% higher than in fiscal 2007. The Group's product margins were also negatively impacted by higher packaging and materials costs as described above. These higher costs exceeded the improvement in the Group's net sales.

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#### CONSOLIDATED RESULTS

Consolidated gross profit as a percentage of net sales in fiscal 2008 decreased to 20% from 22% in fiscal 2007. Cost of sales for fiscal 2008 was reduced by \$831,000 as a result of the sale of emission reduction credits, as described in Note 2 of the Notes to the Consolidated Financial Statements, which increased our consolidated gross profit as a percentage of net sales for fiscal 2008 by approximately 1%. Increased net selling prices in fiscal 2008 did not overcome increased freight, materials and packaging costs. Gross profit was further reduced by a 5% increase in the cost of fuel used in the manufacturing process in fiscal 2008 compared to fiscal 2007.

Selling, general and administrative expenses as a percentage of net sales in fiscal 2008 decreased to 14% from the 17% in fiscal 2007. The decrease in fiscal 2008 was primarily due to decreases in expenses for the estimated incentive bonus, advertising, audit fees and bad debt. The lower fiscal 2008 incentive bonus expense was based on performance targets that are established for each year. Advertising costs were higher in fiscal 2007 due to packaging re-design and market research costs. Audit expense was higher in fiscal 2007 when we became an accelerated filer and were required for the first time to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Bad debt expense was higher in fiscal 2007 due to the write-off of a receivable from a sports product customer.

Interest expense in fiscal 2008 decreased \$200,000 from fiscal 2007 due to a reduction in debt outstanding. Interest income in fiscal 2008 decreased \$345,000 from fiscal 2007 due to lower average interest rates that offset the benefits of higher average investment balances.

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Other income in fiscal 2008 decreased \$506,000 from fiscal 2007. Other income in fiscal 2007 included proceeds received from life insurance policies on former employees.

Our effective tax rate was 26% of pre-tax income in fiscal 2008 versus 27% in fiscal 2007. The effective tax rate was lower in fiscal 2008 primarily due to an increased deduction for mining depletion.

Total assets increased \$6,901,000, or 5%, during fiscal 2008. Current assets increased \$4,351,000, or 6%, from the fiscal 2007 year-end balances primarily due to increased accounts receivable, investments in Treasury securities and inventories. These increases were partially offset by decreased cash and cash equivalents. These changes are described in the Liquidity and Capital Resources section below. Other assets increased \$2,555,000 from fiscal 2007 due to the \$1,300,000 purchase of strategic intangible assets for the Retail and Wholesale Products Group and a lease receivable relating to a co-packaging agreement for the Business to Business Products Group.

Property, plant and equipment, net of accumulated depreciation, was consistent with the year-end balance in fiscal 2007. Capital expenditures for fiscal 2008 were approximately equal to depreciation expense.

Total liabilities decreased \$483,000, or 1%, during fiscal 2008. Noncurrent liabilities decreased \$3,179,000, due to payment on long term debt. This decrease was partially offset by increases in the accrued postretirement benefits and deferred compensation, as described in Notes 8 and 9, respectively, of the Notes to the Consolidated Financial Statements. Current liabilities increased \$2,696,000, or 10%, during fiscal 2008. The changes in current liabilities are described in the Liquidity and Capital Resources section below.

### **FISCAL 2007 COMPARED TO FISCAL 2006**

Consolidated net sales for the year ended July 31, 2007, were \$212,117,000, an increase of 3% from net sales of \$205,210,000 in fiscal 2006. Our Retail and Wholesale Products Group drove the sales improvement. We focused on strategic pricing company-wide in an effort to recover declining margins. Net income for the year was \$7,660,000, an increase of 46% from net income of \$5,259,000 in fiscal 2006. A 91% increase in operating income for the Retail and Wholesale Products Group was a major contributor to the net income growth. The Business to Business Products Group reported lower net sales and operating income in fiscal 2007 due to the declining market for agricultural chemical carriers. This Group was also impacted more by increases in costs of materials.

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### **BUSINESS TO BUSINESS PRODUCTS GROUP**

Net sales of the Business to Business Products Group for fiscal 2007 were \$69,612,000, a decrease of \$737,000 from net sales of \$70,349,000 in fiscal 2006. Net sales of agricultural chemical carriers, animal health and nutrition products and co-packaged products all declined. Agricultural chemical carrier net sales decreased 14% due to 21% lower volume as genetically modified seed and other seed treatments continued to erode the market for these carriers. The decrease in carrier production also decreased the availability of the Group's Flo-Fre product line (because our Flo-Fre product is a by-product of the manufacture of our agricultural chemical carriers), which in turn caused a further decline in net sales. Animal health and nutrition net sales decreased 16% due to the discontinued production of our Poultry Guard product during the second quarter of fiscal 2007; however, the discontinuation of this product did not have a material impact on net income. Our co-packaged traditional coarse cat litter net sales were down 2% in fiscal 2007. Coarse cat litter sales have declined in the overall cat litter market as scoopable cat litter sales have increased. In contrast, sports field products net sales were up 30% and volume was up 13%. The sports field product sales increase was driven by strong sales of baseball products and price increases. Fluids purification products also reported a 4% net sales increase due to higher prices and improved sales in certain overseas markets.

The Business to Business Products Group's operating income decreased 6% to \$13,302,000 in fiscal 2007 from \$14,181,000 in fiscal 2006. Although prices were higher in fiscal 2007, the price increases did not overcome higher costs and the overall 6% volume decline for the Group. Costs in fiscal 2007 were up approximately 7% for freight, 5% for packaging and 4% for materials compared to fiscal 2006. Increased selling and administrative expenses accounted for about a 4% reduction in income. Additional commission expense and a large bad debt



charge were recorded in fiscal 2007.

#### RETAIL AND WHOLESALE PRODUCTS GROUP

Net sales of the Retail and Wholesale Products Group for fiscal 2007 were \$142,505,000, an increase of 6% from net sales of \$134,861,000 reported in fiscal 2006. The growth was driven by sales of private label cat litter. Private label cat litter net sales were up 25% compared to fiscal 2006 due to price increases and 10% higher volume. The volume increase was due to both new distribution and new product offerings. Net sales of synthetic-based industrial absorbents were up 3% due to higher selling prices. Our clay-based floor absorbent net sales increased 2% due to higher prices which overcame a decline in volume. Our Canadian operation's total net sales increased 5% in fiscal 2007. The Canadian net sales increase was driven by private label cat litter products due to higher prices and new products. Better management of trade promotions during fiscal 2007 also increased net sales for the Group. Partially offsetting these sales increases was a 2% reduction in branded cat litter net sales due to lower volume.

The Retail and Wholesale Products Group's operating income increased 91% to \$16,162,000 in fiscal 2007 from \$8,486,000 in fiscal 2006. Price increases, trade promotion changes and lower packaging costs overcame higher freight costs. Packaging costs were approximately 3% lower than fiscal 2006 due to procurement cost savings initiatives. Materials costs in fiscal 2007 were up slightly with the prior year. Freight costs were up approximately 7% compared to fiscal 2006.

#### CONSOLIDATED RESULTS

Consolidated gross profit as a percentage of net sales in fiscal 2007 increased to 22% from 19% in fiscal 2006. Price increases, trade promotion changes and other cost savings initiatives were implemented in an attempt to bring our margins back to more historical levels. Although freight and materials costs continued to rise, packaging costs decreased in fiscal 2007 due to procurement cost savings efforts. Further contributing to the improved gross profit was a 10% decrease in the cost of fuel used in the manufacturing process in fiscal 2007 compared to fiscal 2006; however, non-fuel manufacturing costs rose approximately 6%, which had a negative impact on gross profit. Non-fuel manufacturing costs increased for repairs, labor, electricity and other raw materials.

Selling, general and administrative expenses as a percentage of net sales in fiscal 2007 increased to 17% from the 14% reported in fiscal 2006. The increase in fiscal 2007 expenses was primarily due to an increase in expenses for the estimated discretionary incentive bonus, audit fees, stock-based compensation and bad debt. The higher incentive bonus expense was based on the improved results in fiscal 2007. Additional audit expense was incurred to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 now that we have met the accelerated filer market capitalization threshold. Stock-based compensation expense increased due to the additional expense recorded relating to the stock split as described in Note 7 of the Notes to the Consolidated Financial Statements. Bad debt expense in fiscal 2007 included the write-off of a receivable from a sports product customer. In fiscal 2006, selling, general and administrative expenses were lower due to a gain on sale of water rights described in Note 2 of the Notes to the Consolidated Financial Statements.

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Interest expense for fiscal 2007 increased \$134,000 from fiscal 2006 due to the new debt issuance described in Note 4 of the Notes to the Consolidated Financial Statements. The new debt issuance on December 16, 2005 was outstanding for twelve months in fiscal 2007 and for only seven and a half months in fiscal 2006. Interest income in fiscal 2007 increased \$309,000 from fiscal 2006 due to increased interest rates in the market and increased average investment balances.

Other income in fiscal 2007 increased \$519,000 from fiscal 2006 due to insurance proceeds on life insurance policies on former employees and royalty income from the use of a trademark.

Our effective tax rate was 27% of pre-tax income in fiscal 2007 versus 33% in fiscal 2006. The tax expense for fiscal 2006 included a \$525,000 tax impact for the repatriation of previously accumulated untaxed foreign earnings and profits which increased our fiscal 2006 effective tax rate by 6%.

Total assets increased \$2,540,000, or 2%, during fiscal 2007. Current assets increased \$2,598,000, or 3%, from the fiscal 2006 year-end balances due to increases in cash and cash equivalents and accounts receivable. These changes are described in Liquidity and Capital Resources below. Conversely, prepaid overburden removal decreased due to the \$1,686,000 pre-tax write-off upon implementation of EITF 04-06 described in Note 1 of the Notes to the Consolidated Financial Statements. The decrease in investments in treasury securities is due to timing of transfers to investments from cash and cash equivalents. Inventories decreased due to a concerted effort to reduce packaging inventory levels, lower fuel inventory and cost reduction initiatives.

Property, plant and equipment, net of accumulated depreciation, increased \$152,000 from the year-end balance in fiscal 2006. Vehicles increased due to the purchase of motor equipment used in mining operations and land increased due to the purchase of mining property. Buildings, machinery, equipment and office furniture decreased due to a comprehensive fixed asset inventory which resulted in a write-off of assets and their corresponding accumulated depreciation. The write-offs had no significant financial impact because most assets were fully depreciated. Construction in progress decreased as a large project in process at fiscal year-end 2006 was placed in service during fiscal 2007.

Total liabilities decreased \$4,466,000, or 7%, during fiscal 2007. Noncurrent liabilities decreased \$4,758,000, mostly due to payment on long term debt. Current liabilities increased \$292,000, or 1%, during fiscal 2007, due to an increase in accrued salaries. Accrued salaries included a higher incentive bonus accrual based on the improved financial results for fiscal 2007. The audit expense accrual, included in other accrued expenses, was higher due to additional expense to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 now that we have become an accelerated filer; however, lower accruals relating to packaging and fuel inventories offset the audit accrual increase resulting in an overall decrease in other accrued expenses. In addition, accrued trade spending decreased due to timing and reduction of promotions. Accounts payable also decreased due to normal timing of payments and reduction of packaging inventory levels.

#### **FOREIGN OPERATIONS**

Net sales by our foreign subsidiaries during fiscal 2008 were \$17,587,000, or 8% of total company net sales. This represents an increase of \$630,000, or 4%, from fiscal 2007, in which foreign subsidiary net sales were \$16,957,000, or 8% of total company net sales. Net sales increased in both our Canadian and United Kingdom subsidiaries. Our Canadian subsidiary's net sales increase was primarily due to a higher net selling price that overcame lower tons sold. The lower volume was primarily in private label cat litter sales due to the loss of a customer. For fiscal 2008, our foreign subsidiaries reported net income of \$885,000, an increase of \$555,000 from the \$330,000 net income reported in fiscal 2007. Net selling price increases improved results for both our Canadian and United Kingdom subsidiaries. Our Canadian subsidiary also obtained a greater portion of a raw material from an alternative lower cost source during fiscal 2008. Our Swiss subsidiary reported lower income taxes in fiscal 2008 due to additional taxes recognized in fiscal 2007 related to the repatriation of untaxed earnings. Identifiable assets of our foreign subsidiaries as of July 31, 2008, were \$10,857,000, compared to \$9,775,000 as of July 31, 2007. Most of the increase in identifiable assets was in cash and cash equivalents, inventories and accounts receivable.

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Net sales by our foreign subsidiaries during fiscal 2007 were \$16,957,000, or 8% of total company net sales. This represents an increase of \$570,000, or 3%, from fiscal 2006, in which foreign subsidiary net sales were \$16,387,000, or 8% of total company net sales. This increase in net sales was seen in our Canadian subsidiary, while our United Kingdom subsidiary's net sales were flat with fiscal 2006. Our Canadian subsidiary's net sales increase was driven by private label cat litter products. The introduction of new products and higher prices improved private label cat litter sales. For fiscal 2007, our foreign subsidiaries reported net income of \$330,000, an increase of \$63,000 from the \$267,000 net income reported in fiscal 2006. Price increases helped overcome higher costs in both our Canadian and United Kingdom subsidiaries. Identifiable assets of our foreign subsidiaries as of July 31, 2007, were \$9,775,000, compared to \$9,404,000 as of July 31, 2006. Most of the increase in identifiable assets was in cash and cash equivalents.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Our principal capital requirements include funding working capital needs, the purchasing and upgrading of real estate, equipment and facilities, and investing in infrastructure and potential acquisitions. We have principally used cash generated from operations and, to the extent needed, issuance of debt securities and borrowings under our credit facilities to fund these requirements. Cash and cash equivalents totaled \$6,848,000, \$12,133,000, and \$6,607,000 at July 31, 2008, 2007 and 2006, respectively. As of July 31, 2008, there were no outstanding borrowings under our \$15,000,000 revolving credit facility with Harris N.A.

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

	Fiscal Year Ended		
	July 31, 2008	July 31, 2007	July 31, 2006
Net cash provided by operating activities	\$ 11,341	\$ 16,851	\$ 10,635
Net cash used in investing activities	(10,890)	(5,467)	(14,979)
Net cash (used in) provided by financing activities	(5,666)	(5,546)	5,560
Effect of exchange rate changes on cash and cash equivalents	(70)	(312)	(554)
Net (decrease) increase in cash and cash equivalents	(5,285)	5,526	662

#### *Net cash provided by operating activities*

Net cash provided by operations decreased \$5,510,000 in fiscal 2008 to \$11,341,000. The decrease was primarily due to increases in other assets and changes in working capital, partially offset by an increase in other noncurrent liabilities. The increase in other assets was primarily due to a lease receivable relating to a co-packaging agreement in the Business to Business Products Group. Other noncurrent liabilities increased due to higher postretirement benefits liabilities, as described in Note 8 of the Notes to the Consolidated Financial Statements. Net cash provided by operations increased \$6,216,000 in fiscal 2007 to \$16,851,000. The increase was primarily due to increases in net income during fiscal 2007, loss on sale of fixed assets, non-cash stock compensation expense, other non-cash charges and changes in working capital. The changes in the primary components of working capital that impacted operating cash flows for these years were as follows:

Accounts receivable, less allowance for doubtful accounts, increased \$3,450,000 at fiscal year-end 2008 compared to fiscal year-end 2007. The increase was due in part to strong fiscal 2008 fourth quarter net sales which were 10% greater than fiscal 2007 fourth quarter net sales. Accounts receivable, less allowance for doubtful accounts, increased \$1,818,000 at fiscal year-end 2007 compared to fiscal year-end 2006. The increase was due in part to strong fiscal 2007 fourth quarter net sales which were 5% greater than fiscal 2006 fourth quarter net sales.

Inventories increased by \$2,507,000 at fiscal year-end 2008 compared to fiscal year-end 2007 reflecting the higher cost of materials, packaging and fuel and increased inventory levels. Inventory levels increased due to production planning and service level requirements. Inventories decreased at fiscal year-end 2007 compared to fiscal year-end 2006 by \$460,000 due to a concerted effort to reduce packaging inventory levels, lower fuel inventory and procurement cost reduction initiatives.

Accounts payable increased \$1,310,000 at fiscal year-end 2008 compared to fiscal year-end 2007 due primarily to higher costs for purchased items, particularly energy and packaging, and timing of payments. Accrued expenses decreased \$200,000. The incentive bonus accrual at fiscal year-end 2008 was lower based on the level of achievement against the fiscal year's performance target. This decrease was partially offset by a higher freight accrual due to increased costs. Accounts payable decreased \$1,415,000 at fiscal year-end 2007 compared to fiscal year-end 2006 due primarily to timing of payments. Accrued expenses increased \$1,628,000 due to a higher incentive bonus accrual at fiscal year-end 2007 based on the higher level of achievement against that year's performance target. The audit expense accrual in fiscal 2007 was also higher due to additional expense to comply for the first time with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Partially offsetting these increases were lower accrued expense for packaging and fuel due to the lower inventory levels and a decrease in accrued trade spending.

*Net cash used in investing activities*

Cash used in investing activities was \$10,890,000 in fiscal 2008 versus \$5,467,000 in fiscal 2007. During fiscal 2008, net purchases of investment securities were \$2,331,000 compared to net dispositions of \$2,233,000 in fiscal 2007. During fiscal 2008, we modified our investment strategy to allocate a greater portion of our financial resources to investments versus cash. Purchases and dispositions of investment securities in both periods are also subject to variations in the timing of investment maturities. During fiscal 2008, we also used \$1,300,000 to purchase strategic intangible assets in the Retail and Wholesale Products Group. Capital expenditures were \$455,000 lower in fiscal 2008 compared to fiscal 2007. Cash used in investing activities was \$5,467,000 in fiscal 2007 versus \$14,979,000 in fiscal 2006. Capital expenditures were \$3,070,000 lower in fiscal 2007. Capital expenditures in fiscal 2006 included a large project to increase plant production capacities. During fiscal 2007, net dispositions of investment securities were \$2,233,000 compared to net purchases of debt and investment securities of \$5,158,000 during fiscal 2006. In fiscal 2006, cash available from new long-term debt financing was used for investment purchases.

*Net cash (used in) provided by financing activities*

Cash used in financing activities was \$5,666,000 in fiscal 2008 compared to \$5,546,000 in fiscal 2007. We used cash in fiscal 2008 primarily for principal payments on long-term debt and dividends. Dividend payments were \$339,000 higher in fiscal 2008. In contrast, proceeds from issuance of Treasury Stock and Common Stock during fiscal 2008 were \$363,000 higher as a result of more stock option exercise activity. Cash used in financing activities was \$5,546,000 in fiscal 2007 compared to cash provided by financing activities of \$5,560,000 in fiscal 2006. We used cash in fiscal 2007 primarily for principal payments on long-term debt and dividends. Both of these amounts were higher than similar payments in fiscal 2006. In addition, proceeds from issuance of Treasury Stock and Common Stock during fiscal 2007 were lower compared to fiscal 2006 due to less stock option exercise activity.

*Other*

Total cash and investment balances held by our foreign subsidiaries at July 31, 2008, 2007 and 2006 were \$1,607,000, \$1,013,000 and \$477,000, respectively. Cash and investment balances have grown due to normal business operations. Certain investments held by our foreign subsidiaries were liquidated in fiscal 2006 to facilitate the repatriation of previously untaxed foreign earnings and profits.

We received cash grants of approximately \$590,000 in fiscal 2006 from the State of Illinois. We used these grants to enhance processing capabilities at our Mounds, Illinois production facility. These funds were accounted for on a [net] grant accounting basis; therefore they were not shown as a cash in-flow or a capital expenditure outflow. The grant funds were completely utilized at the end of the fiscal year.

As part of the normal course of business, we guarantee certain debts and trade payables of our wholly-owned subsidiaries. These arrangements are made at the request of the subsidiaries' creditors, as separate financial statements are not distributed for the wholly-owned subsidiaries. As of July 31, 2008 the value of these guarantees was \$644,000 of lease liabilities and \$2,500,000 of long-term debt. The \$2,500,000 of long-term debt was repaid in full on October 1, 2008. See Note 4 of the Notes to the Consolidated Financial Statements.

We entered into an unsecured revolving credit agreement with Harris N.A on January 27, 2006, pursuant to which we may borrow up to \$15,000,000 from time to time. Our payment obligations under this credit agreement are guaranteed by certain of our subsidiaries. The credit agreement contains restrictive covenants that, among other things and under various conditions (including a limitation on capital expenditures), limit our ability to incur additional indebtedness or to acquire or dispose of assets. The agreement also requires us to maintain a minimum fixed coverage ratio and a minimum consolidated net worth. As of July 31, 2008 there were no outstanding borrowings and we had \$15,000,000 available under this credit facility and we were in compliance with our covenants. While there can be no assurance regarding the terms, timing or consummation of any successor agreement, on or before the expiration of this agreement on January 27, 2009, we expect to enter into a successor credit arrangement with Harris N.A. or another financing source containing terms and conditions reasonably acceptable to us. In light of recent financial and credit market developments, the ability to draw on or to enter into any credit arrangement is uncertain.

We believe that cash flow from operations and current cash and investment balances will provide adequate cash funds for foreseeable working capital needs, capital expenditures at existing facilities and debt service obligations for at least the next 12 months. Our revolving credit facility provides an additional source of cash funds but would not be required to meet our foreseeable cash needs in the next 12 months. We expect cash requirements for capital expenditures in fiscal 2009 to increase by over \$5,000,000 from fiscal 2008 due to significant investment in our manufacturing facilities. Our ability to fund operations, to make planned capital expenditures, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements, including, but not limited to, the credit agreement, depends on our future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors. The timing and size of any new business ventures or acquisitions that we complete may also impact our cash requirements.

## CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

The following tables summarize our significant contractual obligations and commercial commitments at July 31, 2008, and the effect such obligations are expected to have on liquidity and cash flows in future periods:

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long-Term Debt	\$ 27,080,000	\$ 5,580,000	\$ 6,700,000	\$ 7,400,000	\$ 7,400,000
Interest on Long-Term Debt	5,829,000	1,498,000	2,404,000	1,456,000	471,000
Operating Leases	11,458,000	2,205,000	3,636,000	1,829,000	3,788,000
Unconditional Purchase Obligations	8,883,000	8,883,000	--	--	--
Total Contractual Cash Obligations	\$ 53,250,000	\$ 18,166,000	\$ 12,740,000	\$ 10,685,000	\$ 11,659,000

We are not required to make a contribution to our defined benefit pension plan in fiscal 2009. We have not presented this obligation for future years in the table above because the funding requirement can vary from year to year based on changes in the fair value of plan assets and actuarial assumptions.

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Committed	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Other Commercial Commitments	\$ 33,130,000	\$ 23,284,000	\$ 9,846,000	\$ --	\$ --
Total Commercial Commitments	\$ 33,130,000	\$ 23,284,000	\$ 9,846,000	\$ --	\$ --

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

## OFF BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities. As of July 31, 2008, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated

with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

**Stock Split Effected by a Stock Dividend.** Our Board declared a stock dividend on June 6, 2006, during our fiscal year 2006. The stock dividend was paid in fiscal 2007, on September 8, 2006, to stockholders of record at the close of business on August 4, 2006. Accordingly, shares outstanding, income (loss) per share, dividends per share, Common Stock price ranges and balance sheet values for all years presented reflect the five-for-four stock split effected by a stock dividend of one-quarter share for each outstanding share of Common Stock and Class B Stock and the adjustment to aggregate par value has been made.

**Trade Receivables.** We recognize trade receivables when the risk of loss and title pass to the customer consistent with our Revenue Recognition policy. See Note 1 of the Notes to the Consolidated Financial Statements. We provide for an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific accounts. A customer is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. While we believe our allowance for doubtful accounts is reasonable, the unanticipated default by a customer with a material trade receivable could occur. We recorded an allowance for doubtful accounts of \$614,000 and \$569,000 at July 31, 2008 and 2007, respectively.

**Inventories.** We value inventories at the lower of cost (first-in, first-out) or market. Inventory costs include the cost of raw materials, packaging supplies, labor and other overhead costs. We perform a detailed review of our inventory items to determine if an obsolescence reserve adjustment is necessary. The review surveys all of our operating facilities and sales divisions to ensure that both historical issues and new market trends are considered. The allowance not only considers specific items, but also takes into consideration the overall value of the inventory as of the balance sheet date. The inventory obsolescence reserve values at July 31, 2008 and 2007 were \$138,000 and \$199,000, respectively. The lower fiscal 2008 reserve is due to a concerted effort to identify and dispose of obsolete inventory.

**Overburden Removal and Mining Costs.** A significant part of our mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material that is then used in a majority of our production processes. Beginning in fiscal 2007, in accordance with Emerging Issues Task Force Issue No. 04-06, *Accounting for Stripping Costs Incurred During Production in the Mining Industry*, the costs associated with overburden removal were treated as variable inventory production costs and were included in cost of sales in the period incurred. Prior to fiscal 2007, the cost of overburden removal was recorded in a prepaid expense account and, as the usable sorbent material was mined, the prepaid overburden removal expense was amortized over the estimated usable material. The amount of available material was estimated using surveys and topographical maps of the mining areas and professional judgment of mining engineers.

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

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**Reclamation.** During the normal course of our overburden removal activities we perform on-going reclamation activities. As overburden is removed from a pit, it is hauled to a previously mined pit and used to refill older sites. This process allows us to continuously reclaim older pits and dispose of overburden simultaneously, therefore minimizing the liability of the reclamation process.

On an annual basis we evaluate our potential reclamation liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations* and with FASB Interpretation No. 47 (as amended), *Accounting for Conditional Asset Retirement Obligations*. As of July 31, 2008 and 2007, we have recorded an estimated net reclamation asset of \$320,000 and \$216,000, respectively, and a corresponding estimated reclamation liability of \$718,000 and \$499,000, respectively. These values represent the discounted present value of the estimated future mining reclamation costs at the production plants. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge, once again over the estimated useful lives of the mines.

Accounting for reclamation obligations requires that we make estimates unique to each mining operation of the future costs we will incur to complete the reclamation work required to comply with existing laws and regulations. Actual costs incurred in the future could differ from estimated amounts. Future changes to environmental laws could increase the extent of reclamation work required. Any such increases in future costs could materially impact the amount incurred for reclamation costs.

**Impairment of goodwill, trademarks and other intangible assets.** We review carrying values of goodwill, trademarks and other indefinite lived intangible assets periodically for possible impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Our impairment review is based on a discounted cash flow approach that requires significant judgment with respect to volume, revenue, expense growth rates and the selection of an appropriate discount rate. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is performed in the first quarter of the fiscal year and we use judgment in assessing whether assets may have become impaired between annual valuations. Indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts may indicate that an asset has become impaired. Our analysis in the first quarter of fiscal 2008 did not indicate any impairment. We continue to monitor events, circumstances or changes in the business that might imply a reduction in value and might lead to impairment.

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

Advertising costs include printed materials, participation in industry conventions and shows and market research. Advertising costs for print media are expensed when the advertising occurs. All other advertising costs are expensed when incurred. All advertising costs are part of selling, general and administrative expenses.

We have accrued liabilities at the end of each period for the estimated trade spending and advertising programs. We recorded liabilities of \$2,126,000 and \$2,395,000 for trade promotions and advertising at July 31, 2008 and 2007, respectively.

**Stock-Based Compensation.** On August 1, 2005, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123-R). This statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*. SFAS 123-R requires the determination of the fair value of stock-based compensation at the grant date and the recognition in the financial statements of the related compensation expense over the appropriate vesting period. Under SFAS 123-R, we now recognize expense for stock options and restricted stock issued under our long term incentive plans. We adopted SFAS 123-R using a modified prospective application. Accordingly, prior period amounts have not been restated.

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The fair value of stock-based compensation was estimated on the grant date using the Black-Scholes Option Pricing Method and is recognized as expense over the appropriate vesting period. This method requires management to make certain estimates, including estimating the expected term of stock options, expected volatility of our stock and expected dividends. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on our Consolidated Financial Statements. We recognized share-based compensation expense of \$669,000 in fiscal 2008 and \$790,000 in fiscal 2007, net of related tax effect. These amounts include expense related to stock option grants and amortization of restricted stock.

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

The discount rate is the rate assumed to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. The discount rate is subject to change each year. We refer to an applicable index and the expected duration of the benefit payments to select a discount rate at which we believe the benefits could be effectively settled. The discount rate for fiscal 2008 is the single equivalent rate that would yield the same present value as the plan's expected cashflows discounted with spot rates on a yield curve of investment-grade corporate bonds. The yield curve is the Citigroup Pension Liability Index. In fiscal 2007 and 2006, the discount rate assumption was a benchmark rate based on the Citigroup Pension Liability Index. Our determination of pension expense or income is based on a market-related valuation of plan assets, which is the fair market value. Our expected rate of return on plan assets is determined based on asset allocations and historical experience. The expected long-term rate of inflation and risk premiums for the various asset categories are based on general historical returns and inflation rates. The target allocation of assets is used to develop a composite rate of return assumption.

As of July 31, 2007, we adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 require the funded status of our defined pension and postretirement health benefit plans to be recognized on the balance sheet. In addition, changes in the funded status that arise during the period but are not recognized as components of net periodic benefit cost are recognized within other comprehensive income, net of income tax. See Note 8 of the Notes to the Consolidated Financial Statements for additional information regarding the adoption of SFAS 158.

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

We determine our current and deferred taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The tax effect of the reversal of tax differences is recorded at rates currently enacted for each jurisdiction



in which we operate. To the extent that temporary differences will result in future tax benefit, we must estimate the timing of their reversal and whether taxable operating income in future periods will be sufficient to fully recognize any deferred tax assets. We maintain valuation allowances where it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could effect the realization of deferred tax assets. We recorded valuation allowances for income taxes of \$2,462,000 and \$1,900,000 at July 31, 2008 and 2007, respectively. The fiscal 2008 valuation allowance increased due to higher alternative minimum tax credit carryforwards, since it is considered more likely than not that the benefit of these credits will not be realized. See Note 5 of the Notes of the Consolidated Financial Statement for further discussion.

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## RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The Statement also establishes presentation and disclosure requirements relating to items measured at fair value. The provisions of this Statement are to be applied prospectively. We adopted this Statement as of August 1, 2008. The adoption of SFAS 159 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, SFAS No. 157 was amended by FASB Staff Positions (FSP) SFAS No. 157 *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP SFAS 157-1) and by FSP SFAS No. 157 *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2). FSP SFAS 157-1 amends SFAS 157 to exclude FASB Statement No. 13, *Accounting for Leases* (SFAS 13) and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. FSP SFAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted the provisions of these Statements as of August 1, 2008. The adoption of these pronouncements did not have a material impact on our consolidated financial statements.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires that the tax benefit related to dividend and dividend equivalents paid on equity-classified nonvested shares and nonvested share units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 will be applied prospectively for tax benefits on dividends declared in our fiscal year beginning August 1, 2008. We believe the adoption of EITF 06-11 will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (an amendment of SFAS No. 133) (SFAS 161). This Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt this Statement as of February 1, 2009, the beginning of our third quarter of our fiscal year ending July 31, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (An Amendment of ARB No. 51) (SFAS 160). This statement establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160

requires the noncontrolling interest to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We will adopt this Statement as of August 1, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

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

We are exposed to interest rate risk and employ policies and procedures to manage our exposure to changes in the market risk of our cash equivalents and short-term investments. We had two interest rate swap agreements outstanding as of July 31, 2008. We believe that the market risk arising from holdings of our financial instruments is not material.

We are exposed to foreign currency fluctuation risk, primarily U.S. Dollar/British Pound, U.S. Dollar/Euro and U.S. Dollar/Canadian Dollar, as it relates to certain accounts receivables and our foreign operations. Foreign currency denominated accounts receivable is a small fraction of our consolidated accounts receivable. We are also subject to translation exposure of our foreign subsidiaries' financial statements. In recent years, our foreign subsidiaries have not generated a substantial portion of our consolidated sales or net income. We do not enter into any hedge contracts in an attempt to offset any adverse effect of changes in currency exchange rates. We believe that the foreign currency fluctuation risk is immaterial to the consolidated financial statements.

We are exposed to regulatory risk in the fluids purification, agricultural and animal health markets, principally as a result of the risk of increasing regulation of the food chain in the United States and Europe. We actively monitor developments in this area, both directly and through trade organizations of which we are a member.

We are exposed to commodity price risk with respect to fuel. We plan to contract for approximately half of our anticipated fuel needs for fiscal 2009 using forward purchase contracts to mitigate the volatility of our kiln fuel prices. We will also consider purchasing contracts for a portion of our fuel requirements for future years. All contracts are related to the normal course of business and no contracts are entered into for speculative purposes. As of July 31, 2008, we have purchased natural gas contracts representing approximately 30% of our planned kiln fuel needs for fiscal 2009. We estimate the weighted average cost of these natural gas contracts in fiscal 2009 to be approximately 42% higher than the contracts in fiscal 2008; however, this average will change as we continue to buy natural gas contracts in accordance with our forward purchase program.

The following table provides information about our natural gas future contracts, which are sensitive to changes in commodity prices, specifically natural gas prices. For the future contracts, the table presents the notional amounts in MMBtu's, the weighted average contract prices, and the total dollar contract amount, which will mature by July 31, 2009. The Fair Value was determined using the "Most Recent Settle" price for the "Henry Hub Natural Gas" option contract prices as listed by the New York Mercantile Exchange on September 30, 2008.

**Commodity Price Sensitivity  
Natural Gas Future Contracts  
For the Year Ending July 31, 2009**

	Expected 2009 Maturity	Fair Value
Natural Gas Future Volumes (MMBtu)	720,000	
Weighted Average Price (Per MMBtu)	\$12.34	
Contract Amount (\$ U.S., in thousands)	\$8,883	\$5,771

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Factors that could influence the fair value of the natural gas contracts, include, but are not limited to, the creditworthiness of our natural gas suppliers, the overall general economy, developments in world events, and the general demand for natural gas by the manufacturing sector, seasonality and the weather patterns throughout the United States and the world. Some of these same events have allowed us to mitigate the impact of the natural gas contracts by the continued, and in some cases expanded, use of recycled oil in our manufacturing processes. Accurate estimates of the impact that these contracts may have on our fiscal 2009 financial results are difficult to make due to the inherent uncertainty of future fluctuations in option contract prices in the natural gas options market.

Please also see Item 1A above, "Risk Factors," for a discussion of these and other risks and uncertainties we face in our business.

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## ITEM 8 ■ FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### CONSOLIDATED BALANCE SHEETS

	July 31,	
	2008	2007
	(in thousands of dollars)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,848	\$ 12,133
Investment in treasury securities	20,916	17,894
Accounts receivable, less allowance of \$614 and \$569 in 2008 and 2007, respectively	31,383	27,933
Inventories	17,744	15,237
Deferred income taxes	890	788
Prepaid expenses and other assets	4,870	4,315
Total Current Assets	82,651	78,300
<b>Property, Plant and Equipment, at Cost</b>		
Buildings and leasehold improvements	23,801	23,426
Machinery and equipment	101,954	99,240
Office furniture and equipment	8,413	9,231
Vehicles	7,850	6,933
	142,018	138,830
Less accumulated depreciation and amortization	(104,494)	(100,033)
	37,524	38,797
Construction in progress	2,650	1,509
Land	11,266	11,139

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Total Property, Plant and Equipment, Net	51,440	51,445
<b>Other Assets</b>		
Goodwill	5,162	5,162
Trademarks and patents (Net of accumulated amortization of \$349 and \$327 in 2008 and 2007, respectively)	733	817
Debt issuance costs (Net of accumulated amortization of \$525 and \$450 in 2008 and 2007, respectively)	338	413
Licensing and non-compete agreements (Net of accumulated amortization of \$2,987 and \$2,757 in 2008 and 2007, respectively)	1,752	682
Deferred income taxes	2,048	1,618
Other	4,864	3,650
Total Other Assets	14,897	12,342
Total Assets	\$ 148,988	\$ 142,087

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

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	July 31,	
	2008	2007
	(in thousands of dollars)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current maturities of notes payable	\$ 5,580	\$ 4,080
Accounts payable	7,491	6,181
Dividends payable	919	833
Accrued expenses		
Salaries, wages and commissions	5,578	7,052
Trade promotions and advertising	2,126	2,395
Freight	2,345	1,305
Other	6,062	5,559
Total Current Liabilities	30,101	27,405
<b>Noncurrent Liabilities</b>		
Notes payable	21,500	27,080
Deferred compensation	5,498	4,756
Other	4,263	2,604
Total Noncurrent Liabilities	31,261	34,440
Total Liabilities	61,362	61,845
<b>Stockholders' Equity</b>		
Common Stock, par value \$.10 per share, issued 7,392,475 shares in 2008 and 7,270,167 in 2007	739	727
Class B Stock, par value \$.10 per share, issued 2,239,538 shares in 2008 and 2,234,538 in 2007	224	223
Additional paid-in capital	22,218	20,150
Restricted unearned stock compensation	(674)	(991)
Retained earnings	105,966	100,503

Accumulated Other Comprehensive Income			
Unrealized gain on marketable securities		68	59
Pension and postretirement benefits		(121)	857
Cumulative translation adjustment		612	507
		129,032	122,035
Less treasury stock, at cost (2,261,942 Common and 324,741 Class B shares at July 31, 2008 and 2,286,226 Common and 324,741 Class B shares at July 31, 2007)		(41,406)	(41,793)
Total Stockholders' Equity		87,626	80,242
Total Liabilities and Stockholders' Equity	\$	148,988	\$ 142,087

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

### CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended July 31,		
	2008	2007	2006
	(in thousands, except for per share data)		
<b>Net Sales</b>	\$ 232,359	\$ 212,117	\$ 205,210
<b>Cost of Sales</b>	(186,289)	(166,417)	(167,136)
<b>Gross Profit</b>	46,070	45,700	38,074
<b>Gain on Sale of Long-Lived Assets</b>	--	--	415
<b>Selling, General and Administrative Expenses</b>	(33,340)	(35,163)	(29,735)
<b>Income from Operations</b>	12,730	10,537	8,754
<b>Other Income (Expense)</b>			
Interest income	1,070	1,415	1,106
Interest expense	(2,189)	(2,389)	(2,255)
Foreign exchange gains (losses)	165	(23)	(95)
Other, net	399	905	386
Total Other Expense, Net	(555)	(92)	(858)
<b>Income Before Income Taxes</b>	12,175	10,445	7,896
<b>Income Taxes</b>	(3,136)	(2,785)	(2,637)
<b>Net Income</b>	\$ 9,039	\$ 7,660	\$ 5,259
<b>Net Income Per Share</b>			
Basic Common	\$ 1.38	\$ 1.22	\$ 0.83
Basic Class B Common	\$ 1.11	\$ 0.90	\$ 0.61
Diluted	\$ 1.25	\$ 1.09	\$ 0.73
<b>Average Shares Outstanding</b>			
Basic Common	5,068	4,902	5,005
Basic Class B Common	1,854	1,834	1,822
Diluted	7,215	7,028	7,219

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME**

	Number of Shares				\$ Amounts ( in thousands)		
	Common	Treasury Stock	Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Restricted Unearned Stock Compensation	Treasury Stock
	& Class B Stock						
<b>Balance, July 31, 2005</b>	<b>9,133,157</b>	<b>(2,295,591)</b>	<b>\$ 913</b>	<b>\$ 13,735</b>	<b>\$ 94,891</b>	<b>\$ (75)</b>	<b>\$ (35,366)</b>
Net Income			--	--	5,259	--	--
Cumulative Translation Adjustments			--	--	--	--	--
Unrealized gain on marketable Securities			--	--	--	--	--
Total Comprehensive Income			--	--	--	--	--
Dividends Declared			--	--	(2,598)	--	--
Purchases of Treasury Stock		(382,045)	--	--	--	--	(7,811)
Issuance of Stock Under Long-Term Incentive Plans	259,545	48,792	26	3,517	(162)	(1,386)	1,095
Share-based Compensation			--	820	--	--	--
Amortization of Restricted Stock			--	--	--	153	--
<b>Balance, July 31, 2006</b>	<b>9,392,702</b>	<b>(2,628,844)</b>	<b>\$ 939</b>	<b>\$ 18,072</b>	<b>\$ 97,390</b>	<b>\$ (1,308)</b>	<b>\$ (42,082)</b>
Net Income			--	--	7,660	--	--
Cumulative Translation Adjustments			--	--	--	--	--
Unrealized gain on marketable Securities			--	--	--	--	--
Adoption of FAS 158 (see Note 8)			--	--	--	--	--
Total Comprehensive Income			--	--	--	--	--
Dividends Declared			--	--	(3,117)	--	--
Adoption of EITF 04-06 (see Note 1)			--	--	(1,235)	--	--
Purchases of Treasury Stock		(873)	--	--	--	--	(16)
Issuance of Stock Under Long-Term Incentive Plans	112,003	18,750	11	992	(195)	--	305
Share-based Compensation			--	1,086	--	--	--
Amortization of Restricted Stock			--	--	--	317	--
<b>Balance, July 31, 2007</b>	<b>9,504,705</b>	<b>(2,610,967)</b>	<b>\$ 950</b>	<b>\$ 20,150</b>	<b>\$ 100,503</b>	<b>\$ (991)</b>	<b>\$ (41,793)</b>
Net Income			--	--	9,039	--	--
Cumulative Translation Adjustments			--	--	--	--	--
Unrealized gain on marketable Securities			--	--	--	--	--
Unrecognized actuarial gain/loss, prior service cost and transition liability			--	--	--	--	--
Total Comprehensive Income			--	--	--	--	--
Dividends Declared			--	--	(3,463)	--	--
Purchases of Treasury Stock		(1,114)	--	--	--	--	(20)
Issuance of Stock Under Long-Term Incentive Plans	127,308	25,398	13	1,171	(113)	--	407
Share-based Compensation			--	897	--	--	--
Amortization of Restricted Stock			--	--	--	317	--
<b>Balance, July 31, 2008</b>	<b>9,632,013</b>	<b>(2,586,683)</b>	<b>\$ 963</b>	<b>\$ 22,218</b>	<b>\$ 105,966</b>	<b>\$ (674)</b>	<b>\$ (41,406)</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended July 31,</b>		
	<b>2008</b>	2007	2006
	(in thousands of dollars)		
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 9,039	\$ 7,660	\$ 5,259
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,455	7,498	7,212
Amortization of investment discounts	(692)	(879)	(600)
Non-cash stock compensation expense	902	1,078	451
Excess tax benefits for share-based payments	(313)	(325)	(516)
Deferred income taxes	(347)	761	192
Provision for bad debts	88	323	127
Loss (Gain) on the sale of property, plant and equipment	221	525	(309)
(Increase) decrease in:			
Accounts receivable	(3,538)	(2,141)	(2,631)
Inventories	(2,507)	460	(3,011)
Prepaid overburden removal expense	--	--	(316)
Prepaid expenses	(555)	312	(280)
Other assets	(1,026)	821	345
Increase (decrease) in:			
Accounts payable	1,438	(934)	2,759
Accrued expenses	(200)	1,628	1,016
Deferred compensation	742	663	443
Other liabilities	634	(599)	494
Total Adjustments	2,302	9,191	5,376
Net Cash Provided by Operating Activities	<b>11,341</b>	16,851	10,635
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(7,302)	(7,757)	(10,827)
Purchase of strategic intangible assets	(1,300)	--	--
Proceeds from sale of property, plant and equipment	43	57	1,006
Purchases of investments in debt securities	--	--	(3,287)
Maturities of investments in debt securities	--	--	3,679
Purchases of investment in treasury securities	(95,831)	(55,217)	(65,336)
Dispositions of investment in treasury securities	93,500	57,450	59,786
Net Cash Used in Investing Activities	<b>(10,890)</b>	(5,467)	(14,979)
<b>Cash Flows from Financing Activities</b>			
Principal payments on long-term debt	(4,080)	(4,080)	(3,080)
Proceeds from issuance of long-term debt	--	--	15,000
Dividends paid	(3,377)	(3,038)	(2,403)
Purchase of treasury stock	(20)	(16)	(7,811)
Proceeds from issuance of treasury stock	293	111	631
Proceeds from issuance of common stock	1,184	1,003	2,460

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Excess tax benefits for share-based payments	<b>313</b>	325	516
Other, net	<b>21</b>	149	247
Net Cash (Used in) Provided by Financing Activities	<b>(5,666)</b>	(5,546)	5,560
Effect of exchange rate changes on cash and cash equivalents	<b>(70)</b>	(312)	(554)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(5,285)</b>	5,526	662
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>12,133</b>	6,607	5,945
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 6,848</b>	\$ 12,133	\$ 6,607

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

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**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 accounting principles generally accepted in the United States of America 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.

**STOCK SPLIT EFFECTED BY A STOCK DIVIDEND**

Our Board declared a stock dividend on June 6, 2006, during our fiscal year 2006. The stock dividend was paid in fiscal 2007 on September 8, 2006, to stockholders of record at the close of business on August 4, 2006. Accordingly, shares outstanding, income (loss) per share, dividends per share, Common Stock price ranges and balance sheet values for all years presented reflect the five-for-four stock split effected by a stock dividend of one-quarter share for each outstanding share of Common Stock and Class B Stock and the adjustment to aggregate par value has been made.

**CASH EQUIVALENTS AND INVESTMENTS IN SECURITIES**

Cash equivalents are highly liquid investments with maturities of three months or less when purchased. Investments in treasury securities are carried at cost, plus accrued interest, which approximates market. We occasionally purchase as investments certain debt securities of highly rated United States corporations. These securities are reported as current or long-term depending on the maturity of the instrument. We classify these investments as held-to-maturity and measure them on an amortized cost basis because we have both the intention and the ability to hold these investments to maturity.

**TRADE RECEIVABLES**

We recognize trade receivables when the risk of loss and title pass to the customer consistent with our Revenue Recognition policy. We provide for an allowance for doubtful accounts based on our historical experience and a periodic review of our accounts receivable, including a review of the overall aging of accounts and analysis of specific accounts. A customer is determined to be uncollectible when we have completed our internal collection procedures, including termination of shipments, direct customer contact and formal demand of payment. We retain outside collection agencies to facilitate our collection efforts. Past due status is determined



based on contractual terms and customer payment history.

## CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash investments and accounts receivable. We place our 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 3 of the Notes to the Consolidated Financial Statements. We generally do not require collateral to secure customer receivables.

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## NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INVENTORIES

We value inventories at the lower of cost (first-in, first-out) or market. We recorded inventory obsolescence reserves of approximately \$138,000 and \$199,000 for the fiscal years ended July 31, 2008 and 2007, respectively. The composition of inventories as of July 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Finished goods	\$ 10,076	\$ 9,012
Packaging	3,798	3,118
Other	3,870	3,107
	\$ 17,744	\$ 15,237

### 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.

### INTANGIBLES AND GOODWILL

We amortize intangibles on a straight-line basis over periods ranging from seven to twenty years. We periodically review intangibles and goodwill to assess recoverability from projected discounted cash flows of the related operating entities. Our review is based on discounted cash flow and other approaches that require significant judgment with respect to volume, revenue, expense growth rates and the selection of an appropriate discount rate. Impairment occurs when the carrying value exceeds the fair value. Our impairment analysis is performed in the first quarter of the fiscal year and we use judgment in assessing whether assets may have become impaired between annual valuations. Indicators such as unexpected adverse economic factors, unanticipated technological changes, competitive activities and acts by governments and courts may indicate that an asset has become impaired.

### PREPAID OVERBURDEN REMOVAL AND MINING COSTS

We mine sorbent materials on property that we either own or lease as part of our overall operations. A significant part of our overall mining cost is incurred during the process of removing the overburden (non-usable material) from the mine site, thus exposing the sorbent material that is then used in a majority of our production processes.

As of August 1, 2006, we adopted EITF Issue No. 04-06, *Accounting for Stripping Costs Incurred during Production in the Mining Industry* (EITF 04-06), which changed our reporting of post-production stripping costs. Beginning in the first quarter of fiscal year 2007, production costs were treated as a variable inventory production cost and were included in cost of sales in the period they were incurred. We had \$1,686,000 of prepaid expense recorded on our consolidated balance sheet as of July 31, 2006. In accordance with the transition guidance provided by this new pronouncement, on August 1, 2006, we wrote off the balance of our prepaid overburden removal expense account to opening retained earnings, with no charge to current earnings. The results for prior periods have not been restated. The cumulative effect adjustment reduced opening retained earnings by \$1,235,000, eliminated the \$1,686,000 balance of the prepaid overburden removal expense account and adjusted our tax accounts by \$451,000.

Prior to fiscal 2007, the cost of the overburden removal was recorded in a prepaid expense account and, as the usable sorbent material was mined, the prepaid overburden removal expense was amortized over the estimated available material. To determine the value of prepaid overburden, our mining personnel survey the individual mining areas. The estimation work is conducted utilizing a combination of manual and computerized survey tools. Once the survey data is recorded it is charted on numerous topographical maps of the mining areas. Finally, estimates are developed based on the survey data, maps and professional judgment of the mining engineers.

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#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

We recorded stripping costs of approximately \$1,719,000 and \$1,293,000 in fiscal years 2008 and 2007, respectively, under EITF 04-06. In fiscal 2006 we amortized to current expense approximately \$2,134,000 of previously recorded prepaid expense.

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

#### RECLAMATION

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

On an annual basis we evaluate our potential reclamation liability in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* and with FASB Interpretation No. 47 (as amended), *Accounting for Conditional Asset Retirement Obligations*. The reclamation assets are depreciated over the estimated useful lives of the various mines. The reclamation liabilities are increased based on a yearly accretion charge, once again over the estimated useful lives of the mines.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment expenditures are generally depreciated using the straight-line method over their estimated useful lives which are listed below. Major improvements and betterments are capitalized while maintenance and repairs that do not extend the useful life of the applicable assets are expensed as incurred.

	<b>Years</b>
Buildings and leasehold improvements	5-30
Machinery and equipment	2-20
Office furniture, computers and equipment	2-10

Property, plant and equipment are reviewed periodically for possible impairment on an annual basis. We review for idle and underutilized equipment and review business plans for possible impairment. When impairment is indicated, an impairment charge is recorded for the difference between the carrying value of the asset and its fair market value.

#### **TRADE PROMOTIONS**

We routinely commit to one-time or on-going trade promotion programs in our Retail and Wholesale Products Group. All such costs are netted against sales. We have accrued liabilities at the end of each period for the estimated expenses incurred, but not paid for these programs. Promotional reserves are provided for sales incentives made directly to consumers, such as coupons, and sales incentives made to customers, such as slotting, discounts based on sales volume, cooperative marketing programs and other arrangements. We use judgment for estimates to determine our trade spending liabilities. We rely on our historical experience with trade spending patterns and that of the industry, current trends and forecasted data.

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#### **NOTE 1 □ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **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 and investments in U.S. Treasury securities, were carried at amounts approximating fair value as of July 31, 2008 and 2007. The fair value of notes payable was estimated based on future cash flows discounted at current interest rates available to us for debt with similar maturities and characteristics. The fair value of notes payable was more than its carrying value by approximately \$418,000 as of July 31, 2008 and was less than its carrying value by approximately \$405,000 as of July 31, 2007.

##### **REVENUE RECOGNITION**

Under the terms of our sales agreements with customers, we recognize revenue when title is transferred. At the time of shipment an invoice is generated which sets the fixed and determinable price. Sales returns and allowances are not material.

##### **COST OF SALES**

Cost of sales includes all manufacturing costs, inbound and outbound freight, inspection costs, purchasing costs associated with materials and packaging used in the production processes and warehouse and distribution costs.

##### **SHIPPING AND HANDLING COSTS**

Shipping and handling costs are included in cost of sales and were \$42,567,000, \$33,830,000, and \$33,011,000 for the years ended July 31, 2008, 2007 and 2006, respectively.

##### **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

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

## RESEARCH AND DEVELOPMENT

Research and development costs of \$2,497,000, \$2,154,000, and \$1,809,000 were charged to expense as incurred for the years ended July 31, 2008, 2007 and 2006, respectively.

## ADVERTISING COSTS

Advertising costs include printed materials, participation in industry conventions and shows and market research. Advertising costs for print media are expensed when the advertising occurs. All other advertising costs are expensed when incurred. All advertising costs are part of selling, general and administrative expenses. Advertising expenses were \$1,054,000, \$1,473,000, and \$1,273,000 for the years ended July 31, 2008, 2007 and 2006, respectively.

## PENSION AND POSTRETIREMENT BENEFIT COSTS

We provide a defined benefit pension plan for eligible salaried and hourly employees. We also provide a postretirement health benefit plan to domestic salaried employees who qualify under the plan's provisions. Our pension and postretirement health benefit plans are accounted for using actuarial valuations required by SFAS No. 87, *Employers' Accounting for Pensions* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

As of July 31, 2007, we adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 require the funded status of our defined pension and postretirement health benefit plans to be recognized on the balance sheet. In addition, changes in the funded status that arise during the period but are not recognized as components of net periodic benefit cost are recognized within other comprehensive income, net of income tax. See Note 8 for additional information regarding the adoption of SFAS 158.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### STOCK-BASED COMPENSATION

On August 1, 2005, we began accounting for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123-R). This statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*. SFAS 123-R requires the determination of the fair value of stock-based compensation at the grant date and the recognition in the financial statements of the related compensation expense over the appropriate vesting period. Under SFAS 123-R, we now recognize expense for stock options and restricted stock issued under our long term incentive plans. We adopted SFAS 123-R using a modified prospective application. Accordingly, prior period amounts have not been restated.

### INCOME TAXES

Deferred income tax assets and liabilities are recorded for the impact of temporary differences between the tax basis of assets and liabilities and the amounts recognized for financial reporting purposes. Deferred tax assets are reviewed and a valuation allowance is established if management believes that it is more likely than not that some portion of our deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change.

U.S. income tax expense and foreign withholding taxes are provided on remittances of foreign earnings and on unremitted foreign earnings that are not indefinitely reinvested. Where unremitted foreign earnings are indefinitely reinvested, no provision for federal or state tax expense is recorded. When circumstances change and we determine that some or all of the undistributed earnings will be remitted in the foreseeable future, a corresponding expense is accrued in the current period.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) as of August 1, 2007. There were no material adjustments associated with the implementation of FIN 48. As of August 1, 2007, unrecognized tax benefits and accrued interest and penalties were not material. We recognize interest and penalties accrued related to uncertain tax positions in income tax (benefit) expense.

We are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. Our federal income tax returns for the fiscal years ending July 31, 2005 through July 31, 2007 remain open for future examination. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from 3 to 5 years. The state impact of any federal income tax changes remains subject to examination by various states for a period of up to one year after formal notification to the states. There are no material open or unsettled federal, state, local or foreign income tax audits. We believe our accrual for tax liabilities is adequate for all open audit years. On the basis of present information, we do not anticipate the total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statute of limitations in the next twelve months.

## NEW ACCOUNTING STANDARDS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The Statement also establishes presentation and disclosure requirements relating to items measured at fair value. The provisions of this Statement are to be applied prospectively. We adopted this Statement as of August 1, 2008. The adoption of SFAS 159 did not have a material impact on our consolidated financial statements.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, SFAS No. 157 was amended by FASB Staff Positions (FSP) SFAS No. 157-1 *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP SFAS 157-1) and by FSP SFAS No. 157-2 *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2). FSP SFAS 157-1 amends SFAS 157 to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. FSP SFAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted the provisions of these Statements as of August 1, 2008. The adoption of these pronouncements did not have a material impact on our consolidated financial statements.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires that the tax benefit related to dividend and dividend equivalents paid on equity-classified nonvested shares and nonvested share units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 will be applied prospectively for tax benefits on dividends declared in our fiscal year beginning August 1, 2008. We believe the adoption of EITF 06-11 will not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (an amendment of SFAS No. 133) (SFAS 161). This Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt this Statement as of February 1, 2009, the beginning of our third quarter of our fiscal year ending July 31, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* (SFAS 160). This statement establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the noncontrolling interest to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and any retained noncontrolling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We will adopt this Statement as of August 1, 2009. We are currently evaluating the impact this Statement will have on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

## **NOTE 2 — SPECIAL CHARGES, FEES AND CHANGES IN ACCOUNTING ESTIMATES**

### **COST OF SALES**

During fiscal 2008, we recorded an \$831,000 pre-tax reduction to our cost of sales from the sale to an unaffiliated third party of emission reduction credits we held in the State of California. We do not need these credits to operate our California mining and manufacturing facility.

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## **NOTE 2 — SPECIAL CHARGES, FEES AND CHANGES IN ACCOUNTING ESTIMATES (CONTINUED)**

### **GAIN ON SALE OF LONG-LIVED ASSETS**

During fiscal 2006, we recorded a \$415,000 pre-tax gain in other income (expense) from the sale of certain water rights in Nevada. These water rights were geographically located in an area that we were not actively planning to develop.

## **NOTE 3 — OPERATING SEGMENTS**

During the first quarter of fiscal 2006, we reorganized our management group to support a business approach focused on meeting the different needs of the end-customers for our products. At that time, our business segments were also redefined from a product line basis to an end-customer basis. SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* establishes standards for reporting information about operating segments. Under SFAS No. 131, we have two reportable operating segments derived from the different characteristics of our two major customer groups: Retail and Wholesale Products Group and Business to Business Products Group.

Net sales and operating income for each segment are provided below. Revenues by product line are not provided because it would be impracticable to do so. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

We do not rely on any segment asset allocations and do not consider them meaningful because of the shared nature of our production facilities; however, we have estimated the segment asset allocations as follows:

	<b>July 31,</b>		
	<b>Assets</b>		
	2008	2007	2006
	(in thousands)		
Business to Business Products	\$ 38,026	\$ 35,298	\$ 36,358
Retail and Wholesale Products	66,838	61,992	59,836
Unallocated Assets	44,124	44,797	43,353
<b>Total Assets</b>	<b>\$ 148,988</b>	<b>\$ 142,087</b>	<b>\$ 139,547</b>

	<b>Year Ended July 31</b>			<b>Income</b>	
	2008	2007	2006	2008	2006
	(in thousands)				
Business to Business Products	\$ 75,048	\$ 69,612	\$ 70,349	\$ 15,782	\$ 14,181
Retail and Wholesale Products	157,311	142,505	134,861	14,973	8,486
<b>Total Sales/Operating Income</b>	<b>\$ 232,359</b>	<b>\$ 212,117</b>	<b>\$ 205,210</b>	<b>\$ 30,755</b>	<b>\$ 22,667</b>
Gain on Sale of Long-Lived Assets <sup>1</sup>				--	415
Less:					
Corporate Expenses				17,461	18,045
Interest Expense, Net of Interest Income				1,119	974
<b>Income before Income Taxes</b>				<b>12,175</b>	<b>10,445</b>
<b>Income Taxes Provision</b>				<b>(3,136)</b>	<b>(2,785)</b>
<b>Net Income</b>				<b>\$ 9,039</b>	<b>\$ 7,660</b>
					<b>\$ 5,259</b>

<sup>1</sup> See Note 2 for a discussion of the gain on the sale of long-lived assets

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### NOTE 3 □ OPERATING SEGMENTS (CONTINUED)

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

	2008	2007	2006
	(in thousands)		
Sales to unaffiliated customers:			
Domestic	\$ 214,772	\$ 195,160	\$ 188,823
Foreign subsidiaries	\$ 17,587	\$ 16,957	\$ 16,387
Sales or transfers between geographic areas:			
Domestic	\$ 7,050	\$ 6,719	\$ 7,224
Income before income taxes:			
Domestic	\$ 10,939	\$ 9,620	\$ 7,478
Foreign subsidiaries	\$ 1,236	\$ 825	\$ 418
Net Income:			
Domestic	\$ 8,154	\$ 7,330	\$ 4,992
Foreign subsidiaries	\$ 885	\$ 330	\$ 267
Identifiable assets:			
Domestic	\$ 138,156	\$ 132,312	\$ 130,143
Foreign subsidiaries	\$ 10,832	\$ 9,775	\$ 9,404

Our largest customer accounted for the following percentage of consolidated net sales and net accounts receivable:

	<b>2008</b>	2007	2006
Net sales for the years ended July 31	<b>25%</b>	23%	19%
Net accounts receivable as of July 31	<b>33%</b>	36%	27%

**NOTE 4 □ NOTES PAYABLE**

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

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Town of Blue Mountain, Mississippi</b>		
Principal payable on October 1, 2008. Interest payable monthly at a variable interest rate reset weekly based on market conditions for similar instruments. The average annual rate was 3.03% and 3.83% in fiscal 2008 and 2007, 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
<b>Prudential Financial</b>		
Payable in annual principal installments on April 15: \$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>9,500</b>	13,500
<b>The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company</b>		
Payable in annual principal installments on October 15: \$1,500,000 in fiscal 2009; \$200,000 in fiscal 2010; \$1,500,000 in fiscal 2011; \$2,100,000 in fiscal 2012; \$2,300,000 in fiscal 2013; \$3,500,000 in fiscal 2014; \$3,500,000 in fiscal 2015; \$400,000 in fiscal 2016. Interest is payable semiannually at an annual rate of 5.89%	<b>15,000</b>	15,000
<b>Other</b>	<b>80</b>	160
	<b>\$ 27,080</b>	\$ 31,160
<b>Less current maturities of notes payable</b>	<b>(5,580)</b>	(4,080)
	<b>\$ 21,500</b>	\$ 27,080

We sold at face value \$15,000,000 in senior promissory notes to The Prudential Insurance Company of America and to Prudential Retirement Insurance and Annuity Company pursuant to a Note Agreement dated December 16, 2005. The notes bear interest at 5.89% per annum and mature on October 15, 2015. The proceeds of the sale may be used to fund future principal payments on debt, acquisitions, stock repurchases, and capital expenditures and for working capital purposes. The Note Agreement contains certain covenants that restrict our ability to, among other things, incur additional indebtedness, dispose of assets and merge or consolidate. The Note Agreement also requires a minimum fixed coverage ratio and a minimum consolidated net worth to be



maintained.

On January 27, 2006, we entered into an unsecured revolving credit agreement with Harris N.A. that is effective until January 27, 2009. The credit agreement provides that we may select a variable rate based on either Harris' prime rate or a LIBOR-based rate, plus a margin which varies depending on our debt to earnings ratio, or a fixed rate as agreed to with Harris N.A. At July 31, 2008, the variable rates would have been 5.0% for the Harris' prime rate or 3.8% for the LIBOR-based rate. At July 31, 2007, the variable rates would have been 8.3% for the Harris' prime rate or 5.9% for the LIBOR-based rate. The credit agreement contains restrictive covenants that, among other things and under various conditions (including a limitation on capital expenditures), limit our ability to incur additional indebtedness or to dispose of assets. The agreement also requires a minimum fixed coverage ratio and a minimum consolidated net worth to be maintained. As of July 31, 2008, \$15,000,000 was available under this credit facility and there were no outstanding borrowings.

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#### NOTE 4 — NOTES PAYABLE (CONTINUED)

On July 12, 2006, Favorite Products Company, Ltd., a wholly-owned subsidiary, entered into a credit agreement with the National Bank of Canada that is effective until July 31, 2011. The agreement provides up to \$900,000 (Canadian dollars) in committed unsecured revolving credit loans. The interest rate on any outstanding borrowings would be based on the Canadian prime rate. The agreement also contains restrictive covenants that require Favorite Products to maintain a minimum working capital ratio and a maximum debt to equity ratio. As of July 31, 2008, there were no outstanding borrowings against this agreement.

The 1998 note agreement with Teachers Insurance and Annuity Association of America ("Teachers") and Prudential Insurance Company of America ("Prudential") for the \$25,000,000 private debt placement was amended to modify the fixed charges ratio covenant contained therein from the original ratio to ratio values that varied over different periods of time. The currently applicable fixed charges ratio was set forth in the July 2002 amendment and sets the ratio for the period November 1, 2003 and thereafter at 1.50 to 1.00. Also currently applicable is an additional interest charge of 0.25% for any fiscal quarter ending on or after July 31, 2002 if the fixed charge coverage ratio is less than 1.50 to 1.00. In December 2006, Prudential Financial bought the remaining portion of the Teachers note agreement, so subsequently this entire note is held by Prudential Financial.

The agreements with Prudential and Harris N.A. impose working capital requirements, dividend and financing limitations, minimum tangible net worth requirements and other restrictions. Our credit agreement with Harris N.A. indirectly restricts dividends by requiring us to maintain consolidated net worth, as defined, of about \$56,760,000 plus 25% of cumulative quarterly earnings from January 31, 2006.

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 us and various of our subsidiaries (with the Company and various of its wholly-owned subsidiaries as guarantors) at rentals sufficient to pay the debt service on the bonds. We repaid this debt in full on October 1, 2008.

Our debt agreements also contain provisions such that if we default on one debt agreement, the others will automatically default. If we default on any guaranteed debt with a balance greater than \$1,000,000, our unsecured revolving credit agreement with Harris N.A. will be considered in default. If we default on any debt with a balance greater than \$5,000,000, we will also be considered in default on the note agreement with Prudential Financial and with the promissory notes to The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company.

We were in compliance with all restrictive covenants and limitations at July 31, 2008.

The following is a schedule by year of future maturities of notes payable as of July 31, 2008:

	(in thousands)
2009	\$ 5,580

2010	<b>3,200</b>
2011	<b>3,500</b>
2012	<b>3,600</b>
Later years	<b>11,200</b>
	<b>\$ 27,080</b>

**NOTE 5 □ INCOME TAXES**

The provision (benefit) for income tax expense consists of the following:

	<b>2008</b>	2007	2006
	<b>(in thousands)</b>		
<b>Current</b>			
Federal	<b>\$ 2,349</b>	\$ 1,873	\$ 2,148
Foreign	<b>327</b>	329	68
State	<b>415</b>	432	360
	<b>3,091</b>	2,634	2,576
<b>Deferred</b>			
Federal	<b>17</b>	123	(57)
Foreign	<b>23</b>	11	82
State	<b>5</b>	17	36
	<b>45</b>	151	61
<b>Total Income Tax Provision</b>	<b>\$ 3,136</b>	\$ 2,785	\$ 2,637

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

	<b>2008</b>	2007	2006
U.S. federal income tax rate	<b>34.0%</b>	34.0%	34.0%
Depletion deductions allowed for mining	<b>(10.6)</b>	(10.3)	(13.6)
State income tax expense, net of federal tax expense	<b>2.3</b>	2.8	3.3
AMT	--	--	1.1
Difference in effective tax rate of foreign subsidiaries	--	0.6	0.1
Empowerment zone credits	<b>(0.9)</b>	(0.9)	(0.5)
Remitted foreign earnings	--	--	6.6
Other	<b>1.0</b>	0.5	2.4
	<b>25.8%</b>	26.7%	33.4%

The Consolidated Balance Sheets as of July 31 included the following tax effects of cumulative temporary differences:

	<b>2008</b>		2007	
	<b>Assets</b>	<b>Liabilities</b>	Assets	Liabilities
	<b>(in thousands)</b>			
Depreciation	\$ --	\$ 1,924	\$ --	\$ 1,391
Deferred compensation	<b>2,237</b>	--	1,962	--
Postretirement benefits	<b>906</b>	--	420	--
Allowance for doubtful accounts	<b>274</b>	--	293	--
Other assets	<b>169</b>	--	319	--

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Accrued expenses	570	--	433	--
Tax credits	3,231	--	2,654	--
Amortization	--	116	--	77
Inventories	46	--	62	--
Depletion	--	625	--	654
Stock compensation expense	610	--	427	--
Reclamation and other	141	--	--	--
Other assets □ foreign	--	119	--	142
	8,184	2,784	6,570	2,264
Valuation allowance	(2,462)	--	(1,900)	--
Total deferred taxes	\$ 5,722	\$ 2,784	\$ 4,670	\$ 2,264

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**NOTE 5 □ INCOME TAXES (CONTINUED)**

As of July 31, 2008, for federal income tax purposes there were alternative minimum tax credit carryforwards of approximately \$2,938,000. A valuation allowance has been established for \$2,462,000 of the deferred tax benefit related to the AMT tax credits since it is more likely than not that the benefit will not be realized. The alternative minimum tax credit carryforwards can be carried forward indefinitely or until utilized.

Historically, no provision had been made for possible income taxes which may be paid on the distribution of untaxed earnings of foreign subsidiaries of approximately \$5,211,000, \$4,360,000 and \$3,700,000 as of July 31, 2008, 2007 and 2006, respectively. No provision was required as substantially all such amounts were intended to be indefinitely invested in the subsidiaries or to be handled in such a way that no additional income taxes would be incurred when such earnings are distributed.

**NOTE 6 □ STOCKHOLDERS □ EQUITY**

Our authorized capital stock at July 31, 2008 and 2007 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.

Our Board declared a stock dividend on June 6, 2006, during our fiscal year 2006. The stock dividend was paid in fiscal 2007, on September 8, 2006, to stockholders of record at the close of business on August 4, 2006. Accordingly, shares outstanding, income (loss) per share, dividends per share, Common Stock price ranges and balance sheet values for all years presented have been restated to reflect the five-for-four stock split effected by a stock dividend of one-quarter share for each outstanding share of Common Stock and Class B Stock and the adjustment to aggregate par value has been made.

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 at least 133 1/3% 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 133 1/3% of the sum of the per share cash dividend paid on Class B Stock and Class A Common Stock. See Note 4 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 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.

Our Board of Directors has authorized in the aggregate the repurchase of 2,916,771 shares of the Company stock. As of July 31, 2008, 2,160,045 shares of Common Stock and 342,241 shares of Class B Stock have been repurchased under the Board approved repurchase authorizations and 146,545 shares of Common Stock by other transactions authorized by management prior to the adoption of the Board's repurchase authorizations. The number of shares to be repurchased under Board authorizations is not affected by the stock split described above; therefore, the number of shares has not been restated.

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#### **NOTE 7 □ STOCK-BASED COMPENSATION**

On August 1, 2005, the beginning of our fiscal year 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (□SFAS 123-R□). This statement is a revision of SFAS No. 123 *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25 (□APB 25□) *Accounting for Stock Issued to Employees*. SFAS 123-R requires the determination of the fair value of stock-based compensation at the grant date and the recognition in the financial statements of the related compensation expense over the appropriate vesting period. Under SFAS 123-R, we now recognize expense for stock options and restricted stock issued under our long term incentive plans. We adopted SFAS 123-R using a modified prospective application. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that were outstanding at the date of adoption. Accordingly, prior period amounts have not been restated.

SFAS 123-R requires that stock-based compensation be recognized over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional service to the company. Certain employees are eligible for accelerated vesting in accordance with the terms of our plans if they retire with 17 years of continuous service and are at least 55 years old and their age plus years of service equals 80. Any unamortized expense is recognized immediately when the employee meets these criteria.

#### **STOCK OPTIONS**

Our 1995 Long Term Incentive Plan (□1995 Plan□) provided for grants of both incentive and non-qualified stock options at an option price per share of 100% of the fair market value of our Class A Common Stock or, if no Class A Common Stock is outstanding, our Common Stock (□Stock□) on the date of grant. Stock options were generally granted with a five-year vesting period and a 10-year term. The stock options vest 25% two years after the grant date and 25% in each of the three following anniversaries of the grant date. The 1995 Plan expired for purposes of issuing new grants on August 5, 2005. All stock issued upon option exercises under this plan were from authorized but unissued stock. All restricted stock issued was from treasury stock.

The Oil-Dri Corporation of America 2006 Long Term Incentive Plan (□2006 Plan□), permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based and cash-based awards. Our employees and non-employee directors are eligible to receive grants under the 2006 Plan. The total number of shares of Stock subject to grants under the 2006 Plan may not exceed 937,500. Option grants covering 25,000 shares have been issued to our outside directors with a vesting period of one year and option grants covering 32,500 shares have been issued to employees with vesting similar to the vesting described above under the 1995 Plan. 90,000 shares of restricted stock have been issued under the 2006 Plan.

The Oil-Dri Corporation of America Outside Director Stock Plan (the □Directors□ Plan□) provides for grants of stock options to directors at an option price per share of 100% of the fair market value of Common Stock on the date of grant. Our directors are considered employees under the provisions of FAS 123-R. Stock options have been granted to our directors for a 10-year term with a one year vesting period. There are 81,250 shares

outstanding and no shares are available for future grants under this plan. All stock issued under the Directors' Plan were from treasury stock.

**NOTE 7 □ STOCK-BASED COMPENSATION (CONTINUED)**

## EQUITY COMPENSATION PLAN INFORMATION AS OF JULY 31, 2008

Plan category	Number of securities to be issued upon exercise of outstanding options (in thousands) (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for further issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by stockholders	543	\$8.74	790
Equity compensation plans not approved by stockholders	81	\$8.11	--

A summary of option transactions under the plans is shown below. The number of shares transacted is shown subsequent to the five-for-four stock split effected by a stock dividend paid on September 8, 2006.

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at July 31, 2005	1,263	\$ 8.48		
Granted	37	\$ 15.01		
Exercised	(340)	\$ 9.05		\$ 2,100
Forfeited	(34)	\$ 6.54		
Options outstanding at July 31, 2006	926	\$ 8.60	5.5	\$ 6,800
Options vested at July 31, 2006	480	\$ 8.27	4.1	\$ 3,700
Options unvested at July 31, 2006	446	\$ 8.96		
Granted	20	\$ 17.00		
Exercised	(131)	\$ 8.50		\$ 1,114
Forfeited	(29)	\$ 7.58		
Options outstanding at July 31, 2007	786	\$ 8.87	4.9	\$ 6,147
Options vested at July 31, 2007	487	\$ 8.79	4.2	\$ 3,843
Options unvested at July 31, 2007	299	\$ 8.99		
Exercised	(152)	\$ 9.70		\$ 1,378
Forfeited	(10)	\$ 9.33		
<b>Options outstanding at July 31, 2008</b>	<b>624</b>	<b>\$ 8.66</b>	<b>4.4</b>	<b>\$ 5,345</b>
<b>Options vested at July 31, 2008</b>	<b>429</b>	<b>\$ 8.68</b>	<b>4.3</b>	<b>\$ 3,661</b>
<b>Options unvested at July 31, 2008</b>	<b>195</b>	<b>\$ 8.61</b>		

The amount of cash received from the exercise of options during the fiscal year ended July 31, 2008, was approximately \$2,854,000 and the related tax benefit was approximately \$355,000. The amount of cash received from the exercise of options during the fiscal year ended July 31, 2007, was approximately \$1,114,000 and the related tax benefit was approximately \$323,000. The amount of cash received from the exercise of options during the fiscal year ended July 31, 2006, was approximately \$3,100,000 and the related tax benefit was approximately \$550,000.

**NOTE 7 □ STOCK-BASED COMPENSATION (CONTINUED)**

OPTIONS OUTSTANDING AND EXERCISABLE  
BY PRICE RANGE AS OF JULY 31, 2008

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding (in thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares (in thousands)	Weighted Average Exercise Price
\$3.40 - \$5.10	174	3.20	\$ 4.92	74	\$ 4.92
\$5.11 - \$6.80	78	3.26	\$ 6.15	78	\$ 6.15
\$6.81 - \$8.50	28	1.69	\$ 7.10	28	\$ 7.10
\$8.51 - \$10.20	200	4.74	\$ 9.32	159	\$ 9.29
\$10.21 - \$11.90	11	1.13	\$ 11.65	11	\$ 11.65
\$11.90 - \$13.60	69	6.21	\$ 12.60	47	\$ 12.73
\$13.61 - \$15.30	32	7.51	\$ 14.77	26	\$ 14.79
\$15.31 - \$17.00	32	8.05	\$ 16.37	6	\$ 15.37
\$3.40 - \$17.00	624	4.40	\$ 8.66	429	\$ 8.68

A five-for-four stock split was declared by our Board on June 6, 2006, during our fiscal year 2006. In keeping with historical practices, we have adjusted the number of shares and the option prices to equitably adjust all outstanding stock options. Under FAS 123-R, the equitable adjustment of outstanding options to reflect a change in capitalization (such as a stock split) may require the recognition of incremental compensation expense if the adjustment is not determined to have been required by the actual terms of the equity incentive plan. The Director's Plan and the 1995 Plan may be deemed to have been discretionary, rather than required by the actual terms of these plans. We recognized additional stock-based compensation expense of \$399,000 in fiscal 2008 and \$464,000 in fiscal 2007 relating to the modification. We will recognize approximately \$93,000 expense in subsequent years.

As of July 31, 2008, we had a total of approximately \$348,000 in unamortized expense associated with all outstanding stock options, including the additional compensation expense resulting from the stock split. The weighted average period over which this expense is expected to be amortized is 1.2 years. As of July 31, 2007 and July 31, 2006, we had a total of approximately \$938,000 and \$1,700,000, respectively, in unamortized compensation expense. The weighted average period over which this expense was expected to be amortized was 1.6 years and 2.4 years at July 31, 2007 and July 31, 2006, respectively.

The fair value of the stock options granted was estimated on the date of the grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. The components of the table are weighted averages of the assumptions for each fiscal year. The assumptions are determined on the date of the grant and grants issued on a given date are valued as a group. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of a grant is determined by reference to the vesting schedule, past exercise behavior and comparison with other reporting companies. We use the dividend rate at the date of grant as the best estimate of future dividends.

Expected volatility is determined by calculating the standard deviation of our stock price for the five years immediately prior to the grant date. This period of time closely resembles the expected term. All of the options currently outstanding have a term of 10 years. All stock options issued under our plans have been issued at the closing market price on the date of grant. There were no grants in fiscal 2008.

	<b>2007</b>	2006
Dividend Yields	<b>2.8%</b>	2.5%
Volatility	<b>22.4%</b>	23.5%
Risk-free Interest Rate	<b>4.6%</b>	4.9%
Expected Life (Years)	<b>5.0</b>	5.4
Weighted Average Fair Value	<b>\$ 3.47</b>	\$ 3.48

(restated for five-for-four stock dividend paid on September 8, 2006)

## NOTE 7 □ STOCK-BASED COMPENSATION (CONTINUED)

### RESTRICTED STOCK

Our 1995 Plan and 2006 Plan both provide for grants of restricted stock. The vesting schedule under the 1995 Plan has varied, but has been three years or less. Under the 2006 Plan, the grants issued so far have vesting periods between three and five years.

A summary of option transactions under the plans is shown below. The number of shares transacted reflects the five-for-four stock split effected by a stock dividend paid on September 8, 2006.

	<b>Number of Shares  (in thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Unamortized Expense  (in thousands)</b>
Unvested restricted stock outstanding at July 31, 2005	6	\$14.86		
Granted	90	\$15.40		
Vested	(1)	\$14.86		
Unvested restricted stock outstanding at July 31, 2006	95	\$15.37	4.2	\$ 1,308
Vested	(19)	\$15.32		
Unvested restricted stock outstanding at July 31, 2007	76	\$15.38	3.3	\$ 991
<b>Vested</b>	<b>(21)</b>	<b>\$15.29</b>		
<b>Unvested restricted stock outstanding at July 31, 2008</b>	<b>55</b>	<b>\$15.42</b>	<b>2.3</b>	<b>\$ 674</b>

## NOTE 8 □ EMPLOYEE BENEFIT PLANS

### PENSION PLAN

We provide a defined benefit pension plan for eligible salaried and hourly employees. Pension benefits are based on a formula of years of credited service and levels of compensation or stated amounts for each year of credited service.

**POSTRETIREMENT HEALTH PLAN**

We also provide a postretirement health benefit plan to domestic salaried employees who retire prior to reaching age 65 and have at least 17 years of continuous service and whose age is at least 55 and whose age plus years of service equals at least 80. Eligible employees may elect to continue their health care coverage under the Oil-Dri Corporation of America Employee Benefits Plan until they reach the age of 65.

**401(K) SAVINGS PLAN**

We also maintain a 401(k) savings plan under which we match a portion of employee contributions. This plan is available to essentially all domestic employees following 30 or 60 days of employment. Our contributions to this plan, and to similar plans maintained by our foreign subsidiaries, were \$660,000, \$585,000 and \$562,000 for fiscal years 2008, 2007 and 2006, respectively.

As of July 31, 2007, we adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 requires us to a) record a liability when the accumulated benefit obligation exceeds the fair value of plan assets and b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. As a result of the adoption, we recorded approximately \$857,000 as an increase to accumulated other comprehensive income at July 31, 2007. The Consolidated Financial Statements for fiscal 2008 and 2007 reflect the adoption of SFAS 158.

**NOTE 8 □ EMPLOYEE BENEFIT PLANS (CONTINUED)**

The net periodic pension and postretirement health benefit costs for the fiscal years ended July 31 consist of the following (in thousands):

	Pension Cost			Postretirement Health Benefit Cost		
	2008	2007	2006	2008	2007	2006
Service cost	\$ 783	\$ 799	\$ 786	\$ 64	\$ 65	\$ 73
Interest cost on projected benefit obligations	1,152	1,087	950	71	64	55
Expected return on plan assets	(1,385)	(1,202)	(942)	--	--	--
Amortization of:						
Net transition (asset) obligation	(25)	(27)	(27)	16	16	16
Prior service costs	49	49	50	--	--	--
Other actuarial (gain) loss	(15)	--	18	3	5	15
Adjustment	1	--	--	--	--	--
Net periodic benefit cost	\$ 560	\$ 706	\$ 835	\$ 154	\$ 150	\$ 159

The following tables provide a reconciliation of changes in the plans' benefit obligations and assets' fair values for fiscal years ending July 31 (in thousands):

	Pension Benefits	Postretirement Health Benefits
--	------------------	--------------------------------



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	2008	2007	2008	2007
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 18,250	\$ 17,604	\$ 1,106	\$ 1,129
Service cost	783	799	64	65
Interest cost	1,152	1,087	71	64
Actuarial (gain) loss	(28)	(935)	214	(38)
Benefits paid	(735)	(605)	(103)	(14)
Benefit obligation at end of year	\$ 19,422	\$ 18,250	\$ 1,352	\$ 1,106
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 17,648	\$ 15,352	\$ --	\$ --
Actual return on plan assets	(34)	2,121	--	--
Employer contribution	827	780	103	14
Benefits paid	(735)	(605)	(103)	(14)
Fair value of plan assets at end of year	\$ 17,706	\$ 17,648	\$ --	\$ --

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**NOTE 8 □ EMPLOYEE BENEFIT PLANS (CONTINUED)**

The following table shows amounts recognized in the Consolidated Statement of Financial Position as of July 31 (in thousands):

	Pension Benefits		Postretirement Health Benefits	
	2008	2007	2008	2007
Deferred income taxes	\$ (99)	\$ (624)	\$ 173	\$ 99
Other current liabilities	--	--	(42)	(20)
Other noncurrent liabilities	(1,716)	(601)	(1,310)	(1,086)
Accumulated other comprehensive income □net of tax:				
Net actuarial (gain) loss	(275)	(1,147)	223	93
Prior service cost	114	145	--	--
Net (asset) obligation at transition	--	(16)	59	68
	\$ (1,976)	\$ (2,243)	\$ (897)	\$ (846)

The following table shows amounts expected to be recognized in fiscal 2009 in accumulated other comprehensive income (in thousands):

	Pension Benefits	Postretirement Health Benefits
Amortization of:		
Net actuarial loss	\$ --	\$ 14
Prior service cost	50	--
Net obligation at transition	--	16
	\$ 50	\$ 30

The assumptions used in the previous calculations were as follows:

	<b>Pension Benefits</b>		<b>Postretirement Health Benefits</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	Discount rate for net periodic benefit costs	<b>6.50%</b>	6.25%	<b>6.50%</b>
Discount rate for year-end obligations	<b>7.00%</b>	6.50%	<b>7.00%</b>	6.50%
Rate of increase in compensation levels	<b>4.00%</b>	4.00%	--	--
Long-term expected rate of return on assets	<b>8.00%</b>	8.00%	--	--

The discount rate for fiscal 2008 is the single equivalent rate that would yield the same present value as the plan's expected cashflows discounted with spot rates on a yield curve of investment-grade corporate bonds. The yield curve is the Citigroup Pension Liability Index. In fiscal 2007, the discount rate assumption was a benchmark rate based on the Citigroup Pension Liability Index.

For fiscal 2008, the medical cost trend assumption was a graded rate starting at 10% and decreasing to an ultimate rate of 5% in 1% annual increments. For fiscal 2007, a flat medical cost trend of 6% was used which was considered approximately equivalent to a graded trend schedule of 10% decreasing to 4.5% over six years.

Our expected rate of return on plan assets is determined by our asset allocation, our historical long-term investment performance, our estimate of future long-term returns by asset class (using input from our actuaries, investment services and investment managers), and long-term inflation assumptions. Our historical actual return averaged approximately 7.8% for the 10-year period ending July 31, 2008. The actual rate of return in fiscal 2008 was approximately 0.1%. Future actual pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the population of participants in our pension plans. The investment objective for the pension plan is to secure the benefit obligations to participants at a reasonable cost. The goal is to optimize the long-term return on plan assets at a moderate level of risk.

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**NOTE 8 □ EMPLOYEE BENEFIT PLANS (CONTINUED)**

We review the allocation of plan assets quarterly. There is no Common Stock in the pension trust fund. The targeted allocation percentages of plan assets is shown below for fiscal 2009 and as of July 31:

<b>Asset Allocation</b>	Target fiscal		
	2009	2008	2007
Fixed income	30%	30%	29%
Equity	70%	57%	58%
Cash and accrued income	--	13%	13%

Our pension benefit and postretirement health benefit obligations and the related effects on operations are calculated using actuarial models. Critical assumptions that are important elements of plan expense and asset/liability measurement include discount rate and expected return on assets for the pension plan and health care cost trend for the postretirement health plan. We evaluate these critical assumptions at least annually. Other assumptions involving demographic factors such as retirement age, mortality and turnover are evaluated periodically and are updated to reflect our experience. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

The effect on postretirement health costs and accruals of a one-percentage point change in the assumed health care cost trend would have had the following effects in the fiscal year ended July 31, 2008 (in thousands):

	One-Percentage Point	One-Percentage Point
--	-------------------------	-------------------------

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	Increase	Decrease
Effect on total service and interest costs for fiscal year ended July 31, 2008	\$ 24	(\$ 20)
Effect on accumulated postretirement benefit obligation as of July 31, 2008	\$ 159	(\$ 138)

We have funded the pension plan based upon actuarially determined contributions that take into account the amount deductible for income tax purposes, the normal cost and the minimum contribution required and the maximum contribution allowed under the Employee Retirement Income Security Act of 1974 (ERISA), as amended. We contributed \$827,000 and \$780,000 to the pension plan during the fiscal years ended July 31, 2008 and July 31, 2007, respectively. We are not required to make a contribution to the plan in fiscal 2009; however, we expect to make a contribution to the plan sufficient to fund the annual cost. We expect to contribute about \$830,000 in fiscal 2009.

The accumulated benefit obligation for the pension plan was \$16,362,000 as of July 31, 2008 and \$15,337,000 as of July 31, 2007.

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

Our estimated future benefit payments are as follows (in thousands):

	Pension Benefits	Postretirement Health Benefits
2009	\$ 678	\$ 42
2010	684	55
2011	723	81
2012	777	86
2013	857	78
2014-18	5,323	480
	\$ 9,042	\$ 822

**NOTE 9 □ DEFERRED COMPENSATION**

In December 1995, we 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 to 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. After September 30, 2000, the participants' returns have been set at our long-term cost of borrowing plus 1%. Compensation deferred since the inception of the plan has been accrued as well as earnings thereon. Participants have deferred \$457,000, \$322,000 and \$304,000 into these plans in fiscal years 2008, 2007 and 2006, respectively. We recorded \$698,000 in expense associated with these plans in fiscal 2008. Payments to participants were \$238,000 in fiscal 2008 and the total liability recorded for deferred compensation is \$5,279,000 at July 31, 2008.

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**NOTE 9 □ DEFERRED COMPENSATION (CONTINUED)**

Effective April 1, 2003, we adopted the Oil-Dri Corporation of America Supplemental Executive Retirement Plan (□SERP□). The purpose of the Plan is to provide certain retired participants in the Oil-Dri Corporation of America Pension Plan (□Retirement Plan□) with the amount of benefits that would have been provided under the Retirement Plan but for: (1) the limitations on benefits imposed by Section 415 of the Internal Revenue Code

(Code), and/or (2) the limitation on compensation for purposes of calculating benefits under the Retirement Plan imposed by Section 401(a)(17) of the Code. We recorded \$23,000 in expense associated with this plan in the fiscal year ended July 31, 2008. The plan is unfunded and we will fund benefits when payments are made. The total liability recorded for the SERP is \$269,000 at July 31, 2008.

The Oil-Dri Corporation of America Annual Incentive Plan, as amended effective January 1, 2008, provides certain executives to receive a deferred executive bonus award if certain financial goals are met. A total of \$374,000 and \$492,000 were awarded for the fiscal years ended July 31, 2008 and 2007, respectively, to certain executives under the provisions of the plan. These awards will vest over a three year vesting period and accrue interest at our long-term cost of borrowing plus 1%.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

We are party to various legal actions from time to time that are ordinary in nature and incidental to the operation of our business. While it is not possible at this time to determine with certainty the ultimate outcome of these or other lawsuits, we believe that none of the pending proceedings will have a material adverse effect on our business or financial condition.

**NOTE 11 LEASES**

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

We lease certain offices and production facilities. Please see Item 2 Properties for further details.

In addition, we lease vehicles, railcars, mining property and equipment, warehouse space, data processing equipment, and office equipment. In most cases, we expect that, in the normal course of business, leases will be renewed or replaced by other leases.

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, 2008:

	(in thousands)
2009	\$ 2,205
2010	2,003
2011	1,634
2012	1,068
2013	762
Later years	3,787
	<u>\$ 11,459</u>

**NOTE 11 LEASES (CONTINUED)**

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:

	2008	2007	2006
	(in thousands)		
Vehicles and Railcars	\$ 1,011	\$ 1,206	\$ 994
Office facilities	750	676	673
Warehouse facilities	142	142	142

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Mining properties			
Minimum	215	131	104
Contingent	370	578	620
Other	505	832	760
	\$2,993	\$3,565	\$3,293

Contingent mining royalty payments are determined based on the tons of raw clay mined.

**NOTE 12 □ OTHER CASH FLOW INFORMATION**

Cash payments for interest and income taxes were as follows:

	2008	2007	2006
	(in thousands)		
Interest	\$1,861	\$2,164	\$1,756
Income taxes	\$2,902	\$2,559	\$1,250

**NOTE 13 □ DERIVATIVE INSTRUMENTS**

In 1998, we entered into two interest rate swap agreements. The notional amount of these agreements is \$22,000,000 at July 31, 2008 and at July 31, 2007. The swap agreements terminate on May 1, 2013. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. These derivatives do not qualify for hedge accounting and accordingly, we have recorded these derivative instruments and the associated assets or liabilities at their fair values with the related gains or losses recorded as other income or expense in the Consolidated Statements of Operations. We recognized additional interest expense of \$7,000, \$12,000 and \$13,000 in fiscal years 2008, 2007 and 2006, respectively, as a result of these contracts.

We have contracted for a portion of our fuel needs for fiscal 2009 using forward purchase contracts. These contracts were entered into during the normal course of business and no contracts were entered into for speculative purposes; therefore, these contracts are not required to be accounted for as derivative instruments or to be recorded on the balance sheet. The notional amount of these agreements is \$8,883,000 at July 31, 2008.

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**NOTE 14 □ SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

A summary of selected information for 2008 and 2007 is as follows:

	Fiscal 2008 Quarter Ended				
	October 31	January 31	April 30	July 31	Total
	(in thousands except per share amounts)				
Net Sales	\$ 55,285	\$ 58,026	\$ 59,543	\$ 59,505	\$ 232,359
Gross Profit	\$ 12,430	\$ 11,348	\$ 11,057	\$ 11,235	\$ 46,070
Net Income	\$ 2,484	\$ 2,089	\$ 2,013	\$ 2,453	\$ 9,039
Net Income Per Share					
Basic Common	\$ 0.38	\$ 0.32	\$ 0.30	\$ 0.37	\$ 1.38
Basic Class B Common	\$ 0.31	\$ 0.26	\$ 0.25	\$ 0.30	\$ 1.11
Diluted	\$ 0.35	\$ 0.29	\$ 0.28	\$ 0.34	\$ 1.25
Dividends Per Share					
Common	\$ 0.1300	\$ 0.1300	\$ 0.1300	\$ 0.1400	\$ 0.5300
Class B	\$ 0.0975	\$ 0.0975	\$ 0.0975	\$ 0.1050	\$ 0.3975

<b>Common Stock Price Range:</b>					
High	\$ 20.25	\$ 23.60	\$ 20.74	\$ 20.70	
Low	\$ 15.00	\$ 18.80	\$ 17.00	\$ 14.95	

	<b>Fiscal 2007 Quarter Ended</b>				
	<b>October 31</b>	<b>January 31</b>	<b>April 30</b>	<b>July 31</b>	<b>Total</b>
	<b>(in thousands except per share amounts)</b>				
Net Sales	\$ 52,129	\$ 52,873	\$ 52,956	\$ 54,159	\$ 212,117
Gross Profit	\$ 10,663	\$ 11,497	\$ 11,539	\$ 12,001	\$ 45,700
Net Income	\$ 1,647	\$ 1,963	\$ 1,999	\$ 2,051	\$ 7,660
<b>Net Income Per Share</b>					
Basic Common	\$ 0.27	\$ 0.32	\$ 0.32	\$ 0.32	\$ 1.22
Basic Class B Common	\$ 0.20	\$ 0.23	\$ 0.24	\$ 0.24	\$ 0.90
Diluted	\$ 0.24	\$ 0.28	\$ 0.28	\$ 0.29	\$ 1.09
<b>Dividends Per Share</b>					
Common	\$ 0.1200	\$ 0.1200	\$ 0.1200	\$ 0.1300	\$ 0.4900
Class B	\$ 0.0900	\$ 0.0900	\$ 0.0900	\$ 0.0975	\$ 0.3675
<b>Common Stock Price Range:</b>					
High	\$ 16.19	\$ 18.25	\$ 18.83	\$ 18.57	
Low	\$ 12.83	\$ 15.32	\$ 15.79	\$ 16.31	

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15f. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, our management concluded that our internal control over financial reporting was effective as of July 31, 2008.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our internal controls over financial reporting as of July 31, 2008 have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page of this Annual Report on Form 10-K.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and Stockholders of Oil-Dri Corporation of America:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Oil-Dri Corporation of America and its subsidiaries at July

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31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2008 and 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP

Chicago, Illinois  
October 10, 2008

**ITEM 9 □ CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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**PART III**

**ITEM 9A □ CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer (□CEO□) and Chief Financial Officer (□CFO□). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO, during the period when our periodic reports are being prepared.

### **Management's Report on Internal Control Over Financial Reporting**

Management's Report on Internal Control Over Financial Reporting is set forth in Part II, Item 8 of this Annual Report on Form 10-K.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

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

### **ITEM 9B □ OTHER INFORMATION**

None.

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### **ITEM 10 □ DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item (except as set forth below) is contained in Oil-Dri's Proxy Statement for its 2008 annual meeting of stockholders (□Proxy Statement□) under the captions □1. Election of Directors,□ □Executive Officers,□ □Section 16(a) Beneficial Ownership Reporting Compliance,□ □Director Nominations,□ □Audit Committee□ and □Corporate Governance Matters□ and is incorporated herein by this reference.

The Company has adopted a Code of Ethics and Business Conduct (the □Code□) which applies to all of its directors, officers (including the Company's Chief Executive Officer and senior financial officers) and employees. The Code imposes significant responsibilities on the Chief Executive Officer and the senior financial officers of the Company. The Code, the Company's Corporate Governance Guidelines and the charter of its Audit Committee may be viewed on the Company's website, [www.oildri.com](http://www.oildri.com) and are available in print to any person upon request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois



60611-4213, telephone (312) 706-3232. Any amendment to, or waiver of, a provision of the Code which applies to the Company's Chief Executive Officer or senior financial officers and relates to the elements of a code of ethics as defined by the Securities and Exchange Commission will also be posted on the Company's website. As allowed by the controlled company exemption to certain New York Stock Exchange rules, the Company does not have a nominating/corporate governance committee and its compensation committee does not have a charter.

On December 18, 2007, we filed with the New York Stock Exchange, or NYSE, the Annual CEO Certification regarding our compliance with the NYSE corporate governance listing standards as required by Section 303A.12(a) of the NYSE Listed Company Manual. In addition, we have filed as exhibits to this Annual Report the applicable certifications of our Chief Executive Officer and our Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of our public disclosures.

#### **ITEM 11 EXECUTIVE COMPENSATION**

The information required by this Item is contained in Oil-Dri's Proxy Statement under the captions Executive Compensation, Report of the Compensation Committee of the Board of Directors, Compensation of Directors, Compensation Committee and Compensation Committee Interlocks and Insider Participation and is incorporated herein by this reference.

#### **ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is contained in Oil-Dri's Proxy Statement under the captions Principal Stockholders, Security Ownership of Management and Equity Compensation Plans and is incorporated herein by this reference.

#### **ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item is contained in Oil-Dri's Proxy Statement under the captions Certain Relationships and Related Transactions and Director Independence and is incorporated herein by this reference.

#### **ITEM 14 PRINCIPAL ACCOUNTANTS FEES AND SERVICES**

The information required by this Item is contained in Oil-Dri's Proxy Statement under the caption Auditor Fees and is incorporated herein by this reference.

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### **PART IV**

#### **ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULE**

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

Consolidated Balance Sheets as of July 31, 2008 and July 31, 2007.

Consolidated Statements of Operations for the fiscal years ended July 31, 2008, July 31, 2007 and July 31, 2006.

Consolidated Statements of Stockholders Equity for the fiscal years ended July 31, 2008, July 31, 2007 and July 31, 2006.

Consolidated Statements of Cash Flows for the fiscal years ended July 31, 2008, July 31, 2007 and July 31, 2006.

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Notes to Consolidated Financial Statements. —

Report of Independent Registered Public Accounting Firm.

(a)(2) The following financial statement schedule is contained herein:

Schedule to Financial Statements, as follows:

Schedule II - Valuation and Qualifying Accounts, years ended July 31, 2008, July 31, 2007 and July 31, 2006.

All other schedules are omitted because they are inapplicable, not required under the instructions or the information is included in the consolidated financial statements or notes thereto.

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

Exhibit No.	Description	SEC Document Reference
3.1	Certificate of Incorporation of Oil-Dri, as amended.	Incorporated by reference to Exhibit 4.1 to Oil-Dri's Registration Statement on Form S-8 (Registration No. 333-57625), filed on June 24, 1998.
3.2	By-Laws of Oil-Dri Corporation of America, as Amended and Restated on December 5, 2006.	Incorporated by reference to Exhibit 3.1 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
4.1	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.	Debt instruments under which the total amount authorized does not exceed 10 percent of our total consolidated assets. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Oil-Dri agrees to furnish these agreements upon the request of the Commission.

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Exhibit No.	Description	SEC Document Reference
10.1	Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001 between A&M Products Manufacturing Company and Oil-Dri (confidential treatment of certain portions of this exhibit has been granted).	Incorporated by reference to Exhibit 10(s) to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on May 1, 2001.
10.2	First Amendment, dated as of December 13, 2002, to Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001.	Incorporated by reference to Exhibit 10.2 to Oil-Dri's (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2007.
10.3	Second Amendment, dated as of October 15, 2007, to Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001.	Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 2008.
10.4	Exclusive Supply Agreement dated May 19, 1999 between Church & Dwight Co., Inc. and Oil-Dri (confidential)	Incorporated by reference to Exhibit (10)(r) to Oil-Dri's (File No. 001-12622) Annual Report on Form 10-K for the

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	treatment of certain portions of this exhibit has been granted).	fiscal year ended July 31, 1999.
10.5	\$25,000,000 Note Purchase Agreement dated as of April 15, 1998 between Oil-Dri and Teachers Insurance and Annuity Association of America and Cigna Investments, Inc.	Incorporated by reference to Exhibit (10)(m) to Oil-Dri s (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 1998.
10.6	First Amendment, dated as of January 15, 2001 to the Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit (10)(m)(5) to Oil-Dri s (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2001.
10.7	Second Amendment, dated as of July 15, 2002 to Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit 10(m)(6) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2002.
10.8	Third Amendment, dated as of January 27, 2006 to Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit 10.2 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on February 1, 2006.
10.9	\$15,000,000 Credit Agreement, dated January 27, 2006 among the Company, certain subsidiaries of the Company and Harris N.A.	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on February 1, 2006.
10.10	\$15,000,000 Note Agreement dated as of December 16, 2005 among the Company, The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company.	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on December 22, 2005.
10.11	First Amendment, dated as of July 12, 2006 to Note Agreement dated as of December 16, 2005.	Incorporated by reference to Exhibit 10.9 to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2006.
10.12	Description of 1987 Executive Deferred Compensation Program.*	Incorporated by reference to Exhibit (10)(f) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 1988.
10.13	Salary Continuation Agreement dated August 1, 1989 between Richard M. Jaffee and Oil-Dri ( 1989 Agreement ).*	Incorporated by reference to Exhibit (10)(g) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 1989.

Exhibit No.	Description	SEC Document Reference
10.14	Extension and Amendment, dated October 9, 1998, to the 1989 Agreement.*	Incorporated by reference to Exhibit 10.12 to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2006.
10.15	Second Amendment, effective October 31, 2000, to the 1989 Agreement.*	Incorporated by reference to Exhibit 99.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on November 13, 2000.
10.16	Third Amendment, dated as of January 31, 2006, to the 1989 Agreement.*	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on February 13, 2006.
10.17		

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	Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit (10)(j)(1) to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 2003.
10.18	First Amendment, effective as of January 1, 2007, to Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008
10.19	Second Amendment, effective as of January 1, 2008, to Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit 10.1 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008
10.20	Oil-Dri Corporation of America 1995 Long Term Incentive Plan as amended and restated effective June 9, 2000.*	Incorporated by reference to Exhibit (10)(k) to Oil-Dri's (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2000.
10.21	Supplemental Executive Retirement Plan dated April 1, 2003.*	Incorporated by reference to Exhibit (10)(1) to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 2003.
10.22	Oil-Dri Corporation of America Outside Director Stock Plan as amended and restated effective October 16, 1999.*	Incorporated by reference to Exhibit (10)(n) to Oil-Dri's (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2000.
10.23	Oil-Dri Corporation of America Annual Incentive Plan (as amended and restated effective January 1, 2008).*	Incorporated by reference to Exhibit 10.4 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008.
10.24	Restricted Stock Agreement, dated as of March 14, 2006, between Oil-Dri Corporation of America and Daniel S. Jaffee.*	Incorporated by reference to Exhibit 10.3 to Oil-Dri's (File No. 001-12622) Current Report on Form 8-K filed on March 20, 2006.
10.25	Oil-Dri Corporation of America 2005 Deferred Compensation Plan (as amended and restated effective January 1, 2008)*	Incorporated by reference to Exhibit 10.3 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008.
10.26	Oil-Dri Corporation of America 2006 Long-Term Incentive Plan (as amended and restated effective July 28, 2006)*	Incorporated by reference to Appendix A to Oil-Dri's (File No. 001-12622) Definitive Proxy Statement on Schedule 14A filed on November 3, 2006.

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Exhibit No.	Description	SEC Document Reference
10.27	First Amendment, effective as of January 1, 2008, to Oil-Dri Corporation of America 2006 Long Term Incentive Plan (as amended and restated effective July 28, 2006)*	Incorporated by reference to Exhibit 10.5 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008.

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10.28	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Class A Common Stock.*	Incorporated by reference to Exhibit 10.2 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.29	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Common Stock.*	Incorporated by reference to Exhibit 10.3 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.30	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Class B Stock.*	Incorporated by reference to Exhibit 10.4 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.31	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Director Stock Option Agreement for Common Stock.*	Incorporated by reference to Exhibit 10.5 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.32	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Restricted Stock Agreement for Class A Common Stock.*	Incorporated by reference to Exhibit 10.6 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.33	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Restricted Stock Agreement for Common Stock.*	Incorporated by reference to Exhibit 10.7 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.34	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Restricted Stock Agreement for Class B Stock.*	Incorporated by reference to Exhibit 10.8 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
11.1	Statement re: Computation of Income per Share.	Filed herewith.
14.1	Code of Ethics	Available at Oil-Dri's website <a href="http://www.oildri.com">www.oildri.com</a> or in print upon request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, IL 60611-4213, telephone (312) 706-3232.
21.1	Subsidiaries of Oil-Dri.	Filed herewith.
23.1	Consent of PricewaterhouseCoopers LLP.	Filed herewith.
31.1	Certifications pursuant to Rule 13a-14(a).	Filed herewith.
32.1	Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.

\* Management contract or compensatory plan or arrangement.

### SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA  
(Registrant)

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By

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

Dated: October 10, 2008

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

/s/ Richard M. Jaffee  
Richard M. Jaffee  
Chairman of the Board of Directors

October 10, 2008

/s/ Daniel S. Jaffee  
Daniel S. Jaffee  
President and Chief Executive Officer, Director  
(Principal Executive Officer)

October 10, 2008

/s/ Andrew N. Peterson  
Andrew N. Peterson  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

October 10, 2008

/s/ Daniel T. Smith  
Daniel T. Smith  
Vice President and Controller  
(Principal Accounting Officer)

October 10, 2008

/s/ J. Steven Cole  
J. Steven Cole  
Director

October 10, 2008

/s/ Arnold W. Donald  
Arnold W. Donald  
Director

October 10, 2008

/s/ Joseph C. Miller  
Joseph C. Miller  
Vice Chairman of the Board of Directors

October 10, 2008

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/s/ Michael A. Nemeroff  
Michael A. Nemeroff  
Director

October 10, 2008

/s/ Allan H. Selig

October 10, 2008

Allan H. Selig  
Director

/s/ Paul E. Suckow  
Paul E. Suckow  
Director

October 10, 2008

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## SCHEDULE II

### OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES

#### VALUATION AND QUALIFYING ACCOUNTS

	Year Ended July 31		
	2008	2007	2006
	(in thousands)		
<b>Allowance for doubtful accounts:</b>			
Beginning balance	\$ 569	\$ 567	\$ 609
Additions charged to expense	89	323	127
Deductions*	44	321	169
Balance at end of year	\$ 614	\$ 569	\$ 567
<b>* Net of recoveries.</b>			
<b>Valuation reserve for income taxes:</b>			
Beginning balance	\$ 1,900	\$ 1,831	\$ 1,784
Additions (Deductions) charged to expense	562	69	47
Balance at end of year	\$ 2,462	\$ 1,900	\$ 1,831

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## EXHIBITS

### EXHIBIT NUMBER

11.1	Statement Re: Computation of per share earnings
21.1	Subsidiaries of Oil-Dri
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certifications by Daniel S. Jaffee, President and Chief Executive Officer, and Andrew N. Peterson, Chief Financial Officer, required by Rule 13a-14(a)
32.1	Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002

Note:

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