

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

OIL DRI CORPORATION OF AMERICA  
Form 10-K405  
October 26, 2001

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, 2001

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:

COMMON STOCK, PAR VALUE \$0.10 PER SHARE

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

NONE

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

Yes  No

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

The aggregate market value of the Registrant's Common Stock owned by non-affiliates as of September 28, 2001 was \$29,713,565.

# Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Number of Shares of each class of the Registrant's Common Stock outstanding as of September 28, 2001:

Common Stock - 5,470,435 shares (including 1,279,110 treasury shares)  
Class B Stock - 1,765,083 shares (including 342,241 treasury shares)  
Class A Common Stock - 0 shares

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference:

1. The Registrant's Proxy Statement for its 2001 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission not later than November 28, 2001 (120 days after the end of the Registrant's fiscal year ended July 31, 2001), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.

2

## CONTENTS

### PART I

|   |  |
|---|--|
| ITEM 1:                                   | Business.....  |
| ITEM 2:                                   | Properties.....  |
| ITEM 3:                                   | Legal Proceedings.....                                   |
| ITEM 4:                                   | Submission of Matters to a Vote of Security Holders..... |
| EXECUTIVE OFFICERS OF THE REGISTRANT..... |  |

### PART II

|          |  |
|----------|--|
| ITEM 5:  | Market for Registrant's Common Equity and Related Stockholder Matters.....                   |
| ITEM 6:  | Selected Financial Data.....   |
| ITEM 7:  | Management Discussion and Analysis of Financial Condition and the Results of Operations..... |
| ITEM 7A: | Quantitative and Qualitative Disclosures About Market Risk.....                              |
| ITEM 8:  | Financial Statements and Supplementary Data.....   |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

ITEM 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....
INDEPENDENT AUDITOR'S REPORT.....

PART III

ITEM 10: Directors and Executive Officers of the Registrant.....
ITEM 11: Executive Compensation.....
ITEM 12: Security Ownership of Certain Beneficial Owners and Management.....
ITEM 13: Certain Relationships and Related Transactions.....

PART IV

ITEM 14: Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....
SIGNATURES .....
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS.....
EXHIBIT INDEX .....

PART I

ITEM 1. BUSINESS

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

The Registrant's sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of the Registrant's absorbent clay products are CAT'S PRIDE(R) Premium

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

cat litter and other cat litters, OIL-DRI ALL PURPOSE(R) floor absorbent and other floor absorbents and AGSORB(R) granular agricultural chemical carriers.

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

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

Certain financial information on segments is contained in Note 3 of the "Notes to Consolidated Financial Statements," incorporated herein by reference. Information concerning total revenue of classes of similar products accounting for more than 10% of consolidated revenues in any of the last three fiscal years is not separately provided because it is the same as the information on net sales of segments furnished in Note 3 of the "Notes to Consolidated Financial Statements."

Certain financial information about the Registrant's foreign and domestic operations is contained in Note 3 of the "Notes to Consolidated Financial Statements," incorporated herein by reference.

### Consumer Products

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

4

outlets such as Publix, Kroger, Stop and Shop and others. LASTING PRIDE(R) cat litter is principally sold to mass merchandisers such as Wal-Mart and K-Mart.

The Registrant has several long-term supply agreements under which it manufactures branded traditional litters for other marketers. Under these co-manufacturing relationships, the marketer controls all aspects of sales, marketing, distribution and the odor control formula. The Company is responsible for manufacturing. The Registrant and The Clorox Company have had such an arrangement under which they developed FRESH STEP(R) premium-priced cat litter

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

products and under which the Registrant has an exclusive right to supply The Clorox Company's requirements for FRESH STEP(R) coarse cat litter up to certain levels. During fiscal year 2001, the Company signed a new long-term agreement with The Clorox Company, such that the Company will continue to supply The Clorox Company with product. Additionally, during fiscal year 2001, the Company signed an agreement with The Clorox Company to produce Jonny Cat cat litter for the eastern half of the U.S. Production will begin late in the first quarter of fiscal year 2002. The Registrant also has a supply agreement with the Church & Dwight Co., Inc. whereby they are the exclusive manufacturer of the Arm and Hammer SUPER CLAY(TM) cat litter.

The cat litter market consists of two segments of product, coarse (traditional) and scoopable. Coarse litters are products that have absorbent and odor controlling characteristics. Scoopable litters, in addition to having absorbent and odor controlling characteristics, also have the characteristic of clumping when exposed to moisture, allowing the consumer to dispose of the used portion of the litter selectively. The cat litter market has expanded at a moderate pace in recent years, with the larger portion of the growth coming in the scoopable segment. Introduced in the early 1990's, the scoopable litters have now captured over 50% of the market measured in retail dollars.

The overwhelming majority of all cat litter is mineral based; however, over the years various alternative litters have been introduced based on alternative strata such as paper, various agricultural waste products, and, most recently, silica gels. To date, these products have assumed niche positions within the category.

In fiscal 1998, the Registrant purchased Salubrius, Inc., a manufacturer of dog biscuits, which was subsequently renamed Phoebe Products Company. During fiscal 2001 most of the Phoebe Products sales were achieved in the high-end private label market, while branded sales of SMART SNACKS(R) items have seen mixed results in fiscal 2001 and 2000.

### Specialty Products Group

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

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

The Registrant also produces PERFORM(TM) and SELECT(TM) bleaching clays, which offer performance advances to refiners. The PERFORM(TM) products are the next generation of bleaching clays, providing increased activity for hard-to-bleach oils. The SELECT(TM) line of products is used earlier in the process stream to remove a variety of impurities from edible oils. SELECT(TM) bleaching clays can also be used to replace the water wash step in the caustic refining of edible oils. Other products include PEL-UNITE(R) and CONDITIONADE(R) pelleting aids used in the manufacture of animal feeds and POULTRY GUARD(TM) litter amendments used in controlling ammonia levels in commercial poultry houses.

### Crop Production and Horticultural Products Group

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

The Registrant produces and markets a wide range of granular and powdered mineral absorbent products that are used with crop protection chemicals, agricultural drying agents, bulk processing aids, growing media, turf fertilizers and sports field products. Brands include AGSORB(R) agricultural chemical carriers and drying agents; FLO-FRE(R), a highly absorbent microgranule flowability aid; TERRA-GREEN(R) growing media supplement; and SOILMASTER(R) sports field conditioner.

5

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

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

In October 1999 the Registrant acquired Pro's Choice, Inc., a marketer and distributor of sports field products. Previously, the Registrant had supplied Pro's Choice with specialty clay products for use in these markets. Products include SOILMASTER(R) family of infield conditioners. These products improve the performance and playability of baseball infields and facilitate root zone growth when used on the soil of soccer and football fields. The Registrant's principal customers for these products are managers of baseball, football, soccer fields and golf courses.

### Industrial and Automotive Products

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

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

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

### Patents

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

The Registrant has obtained or applied for patents for certain of its processes and products. These patents expire at various times, beginning in 2001. Patented processes and products are not material to the Registrant's overall business.

### Foreign

Favorite Products Company, Ltd. (d.b.a. Oil-Dri Canada) is a manufacturer and marketer of branded and private label cat litter in the Canadian market place. Among the branded products sold by Favorite are SAULAR(R), a leading cat litter brand in Canada; and SAULAR(R) KAT-KIT(TM), a disposable cat litter tray and litter combination. Certain of the products sold in Canada are blends of clay and synthetic sorbent materials.

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

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

## 6

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

### Backlog; Seasonality

At July 31, 2001 and 2000, the Registrant's backlog of orders was approximately \$2,088,000 and \$2,913,000, respectively. The Registrant does not consider its clay sorbent business, taken as a whole, to be seasonal to any material extent. However, certain business activities of certain customers of the Registrant (such as agricultural) are subject to such factors as crop acreage planted and product formulation cycles.

### Customers

Sales to Wal-Mart Stores, Inc. accounted for approximately 21% of the Registrant's net sales for the fiscal year ended July 31, 2001. Sales to The Clorox Company accounted for approximately 8% of the Registrant's net sales for the fiscal year ended July 31, 2001. The Clorox Company and the Registrant are parties to a long-term supply contract. The loss of any other of the Registrant's customers would not have a materially adverse effect on the Registrant.

### Competition

The Registrant has approximately six principal competitors in the United States, some of which have substantially greater financial resources than the Company, which compete with the Registrant in certain markets and with respect to certain products. Price, service and technical support, product quality and delivery are the principal methods of competition in the

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Registrant's markets and competition has historically been very vigorous.

### Reserves

The Registrant mines sorbent materials, consisting of either montmorillonite, attapulgite or diatomaceous earth on leased or owned land near its manufacturing facilities in Mississippi, Georgia, Illinois and Oregon, and on leased and owned land in Florida (see "Item 2. Properties" below). The Registrant estimates that its proven recoverable reserves of these sorbent materials aggregate approximately 478,642,000 tons. Based on its rate of consumption during the 2001 fiscal year, the Registrant considers its proven recoverable reserves adequate to supply the Registrant's needs for over 50 years. It is the Registrant's policy to attempt to add to reserves in most years, but not necessarily in every year, an amount at least equal to the amount of reserves consumed in that year. The Registrant has a program of exploration for additional reserves and, although reserves have been acquired, the Registrant cannot assure that such additional reserves will continue to become available. The Registrant's use of these reserves will be subject to compliance with existing and future federal and state statutes and regulations regarding mining and environmental compliance. Also, requirements for environmental compliance may restrict exploration or use of lands that might otherwise be utilized as a source of reserves. During the fiscal year ended July 31, 2001, the Registrant utilized these reserves to produce substantially all of the sorbent minerals that it sold.

In 1997, the Registrant acquired rights to mineral reserves on approximately 5,907 acres in Nevada. This acreage is in addition to approximately 415 acres acquired in 1991 in Washoe County, Nevada. The Registrant estimates that there are over 300,000,000 tons of proven reserves of sorbent materials on the combined acreage. Mining and processing these reserves requires the approval of federal, state and local agencies. The Registrant has received federal approval to mine these properties and is in the process of obtaining all other necessary state and local approvals. One of the approvals needed is the grant of a Special Use Permit by Washoe County, Nevada, permitting construction of a plant to process the mined material. The Registrant has filed, and is completing, its application for that permit. The grant of the permit is being opposed by various environmental groups and by the Reno Sparks Indian Colony. Washoe County is scheduled to reach a final decision on Registrant's application for the permit during the first quarter of calendar 2002. Should the Washoe County Board grant the permit, it is probable that those opposing construction of the plant will continue their opposition through litigation. An Environmental Impact Statement (EIS) is also awaiting approval by the Nevada Bureau of Land Management (BLM). While the Registrant hopes to develop a plant to process the mined materials, there can be no assurance that this will be accomplished.

7

In 1998, mineral reserves on approximately 778 acres in Tennessee and 759 acres in Illinois were acquired in conjunction with the purchase of Oil-Dri, Mounds Production Company.

### Mining Operations

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



## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

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

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

Each of the Registrant's processing facilities maintains stockpiles of unprocessed clay of approximately one week of production requirements.

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

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

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

|                                 |    |
|---------------------------------|----|
| Ochlocknee, Georgia.....        | \$ |
| Ripley, Mississippi.....        | \$ |
| Mounds, Illinois.....           | \$ |
| Blue Mountain, Mississippi..... | \$ |
| Christmas Valley, Oregon.....   | \$ |

### Employees

As of July 31, 2001, the Registrant employed 782 persons, 79 of whom were employed by the Registrant's foreign subsidiaries. The Registrant's corporate offices, research and development center and manufacturing facilities are adequately staffed and no material labor shortages are anticipated. Approximately 41 of the Registrant's employees in the U.S. and approximately 21 of the Registrant's employees in Canada are represented by labor unions, which have entered into separate collective bargaining agreements with the Company. Employee relations are considered satisfactory.

#### Environmental Compliance

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

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

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

#### Energy

The Registrant uses coal, natural gas and recycled fuel oil as permitted for energy sources in the processing of its clay products. In prior years and again in 2001, the Registrant has switched from natural gas to other energy sources during certain months due to seasonal unavailability and the higher cost of natural gas relative to other fuels.

#### Research and Development

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

The Registrant spent approximately \$1,953,000, \$1,951,000 and \$2,110,000 during its fiscal years ended July 31, 2001, 2000 and 1999, respectively, for research and development. None of such research and development was customer sponsored, and all research and development costs are expensed in the year in which incurred.

## ITEM 2. PROPERTIES

The Registrant's properties are generally described below:

## LAND HOLDINGS &amp; MINERAL RESERVES

|                  | LAND<br>OWNED<br>-----<br>(ACRES) | LAND<br>LEASED<br>-----<br>(ACRES) | LAND<br>UNPATENTED CLAIMS<br>-----<br>(ACRES) | TOTAL<br>-----<br>(ACRES) | PROVEN<br>RESERVES<br>-----<br>(000S OF TONS) |
|------------------|-----------------------------------|------------------------------------|---|---------------------------|---|
| Florida.....     | 537                               | 446                                | --  | 983                       | 4,512   |
| Georgia.....     | 1,863                             | 1,594                              | --  | 3,457                     | 35,891  |
| Illinois.....    | 161                               | 598                                | --  | 759                       | 8,013   |
| Mississippi..... | 2,181                             | 1,153                              | --  | 3,334                     | 119,121                                       |
| Nevada.....      | 535                               | --                                 | 5,827   | 6,362                     | 306,830                                       |
| Oregon.....      | 405                               | --                                 | 100   | 505                       | 25  |
| Tennessee.....   | 778                               | --                                 | --  | 778                       | 4,250   |
|                  | -----                             | -----                              | -----   | -----                     | -----   |
|                  | 6,460                             | 3,791                              | 5,927   | 16,178                    | 478,642                                       |
|                  | =====                             | =====                              | =====   | =====                     | =====   |

See "Item 1. Business--Reserves"

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

The Registrant's mining operations are conducted on leased or owned land and, in Oregon, unpatented mining claims. The Georgia, Illinois, Florida and Mississippi mining leases, with expiration dates ranging from 2001 to 2053, none of which is material, generally require that the Registrant pay a minimum monthly rental to continue the lease term. This rental payment is applied against a royalty related to the number of unprocessed, or in some cases processed, tons of mineral extracted from the leased property.

Of the Registrant's total reserves, certain claims in Nevada and Oregon are unpatented mining claims leased by the Registrant, on which the Registrant has the right to conduct mining activities. The validity of title to unpatented mining claims is dependent upon numerous factual matters. The Registrant believes the unpatented mining claims it leases are in compliance with all applicable federal, state and local mining laws, rules and regulations. In fiscal 2000, the Bureau of Land Management determined that the Registrant's

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

claim on certain Nevada properties are locatable in nature. This ruling has the effect of perfecting the Registrant's right to mine these claims. In the past, members of Congress and the executive branch of the federal government have proposed amendments to existing federal mining laws. These amendments could have a prospective effect on mining operations on federal lands and include, among other changes, the imposition of royalty fees on the mining of unpatented claims, the elimination or restructuring of the patent system and an increase in fees for the maintenance of unpatented claims. To the extent that future proposals may result in the imposition of royalty fees on unpatented lands, the mining of the Registrant's unpatented claims may become uneconomic. The Registrant cannot predict the form that any such amendments might take or whether or when such amendments might be adopted.

The Registrant operates manufacturing facilities at Ripley, Mississippi; Ochlocknee, Georgia; Christmas Valley, Oregon; Blue Mountain, Mississippi and Mounds, Illinois; production and packaging plants at Laval, Quebec, Canada and Wisbech, United Kingdom; a non-clay sorbents processing and warehousing facility in Alpharetta, Georgia; and a dog biscuit manufacturing plant in Kiel, Wisconsin. The Registrant's facilities at Ripley, Mississippi; Ochlocknee, Georgia; Christmas Valley, Oregon; Mounds, Illinois; Alpharetta, Georgia; Laval, Quebec, Canada and Wisbech, United Kingdom are wholly owned by the Registrant and the Registrant's facility at Blue Mountain, Mississippi is owned in part by the Registrant, with the balance leased as hereinafter described. The Registrant is a party to leases that relate to certain plant acquisition and expansion projects at the Registrant's facility at Blue Mountain, Mississippi. The Blue Mountain, Mississippi lease was entered into with the Town of Blue Mountain, Mississippi in 1988 in connection with the issuance by the Town of \$7,500,000 in aggregate principal amount of

10

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

All of the Registrant's domestic manufacturing facilities, whether owned or leased, consist of related steel frame, sheet steel covered or brick buildings of various heights, with concrete floors and storage tanks. The buildings occupy approximately 208,000 square feet at Ripley, Mississippi; 398,000 square feet at Ochlocknee, Georgia; 129,000 square feet at Mounds, Illinois; 18,000 square feet at Christmas Valley, Oregon; 26,000 square feet at Alpharetta, Georgia; 16,000 square feet at Kiel, Wisconsin and 140,000 square feet at Blue Mountain, Mississippi. The Registrant maintains railroad siding facilities near the Ripley, Mississippi; Ochlocknee, Georgia; Blue Mountain, Mississippi; Mounds, Illinois and Laval, Quebec, Canada manufacturing facilities. Equipment at all facilities is in good condition, well maintained and adequate for current processing levels.

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

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

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

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

### ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings.

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

Not applicable.

11

### ITEM 401(b) OF REGULATION S-K. EXECUTIVE OFFICERS OF THE REGISTRANT

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

| NAME(1)<br>-----          | PRINCIPAL OCCUPATION<br>FOR LAST FIVE YEARS<br>-----  |
|---------------------------|---|
| Daniel S. Jaffee(1).....  | President and Chief Executive Officer of the Registrant; President and Chief Operating Officer from June 1995 until August 1999.  |
| Richard V. Hardin(2)..... | Group Vice-President of Technology of the Registrant.   |
| Eugene W. Kiesel.....     | Vice-President of Specialty Products Group of the Registrant since October 1997; Vice-President of Radian International, a subsidiary of Dow Chemical Company from July 1996 to October 1997; General Manager of ACS, a division of Dow Chemical Company from November 1993 to July 1996. |
| Wade R. Bradley.....      | Vice-President of Global Consumer Products of the Registrant; Vice-President, Industrial & Automotive Products Group from December 1998 to June 2000; General Manager, Industrial & Automotive Products Group from June 1995 to December 1998.  |
| Thomas F. Cofsky(2).....  | Vice-President of Manufacturing and Logistics of the Registrant; Vice-President of Logistics, Quality & Service from February 1996 to June 1999; General Manager, Logistics, Quality & Service from February 1995 to February 1996.   |
| Jeffrey M. Libert.....    | Vice-President & Chief Financial Officer of the Registrant since April 2000; Vice-President of Corporate Development and Planning from June 1998 to April 2000; Manager of  |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Production Planning from August 1995 to June 1998.

Robert L. Vetere..... Vice-President of Administration, General Counsel and Secretary of the Registrant; Vice-President Legal and General Counsel of the Registrant from June 1999 to November 2000; Secretary of the Registrant since December 1999; Associate General Counsel and Director of Government Relations of First Brands Corporation from April 1996 to April 1999.

The term of each executive officer expires at the 2001 Annual Meeting of the Stockholders and when his successor is elected and qualified.

-----

- (1) Of the persons in this table, only Daniel S. Jaffee is a director.
- (2) Richard V. Hardin and Thomas F. Cofsky are Daniel S. Jaffee's brothers-in-law.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS

Information with respect to holders of Common Stock and Class B Stock is contained in Note 6 of the "Notes to Consolidated Financial Statements" incorporated herein by reference.

Information concerning stock prices and dividends with regard to the Common Stock of the Registrant, which is traded on the New York Stock Exchange, and information concerning dividends with regard to the Class B Stock of the Registrant, for which there is no established public trading market, is contained in Note 13 of the "Notes to Consolidated Financial Statements," incorporated herein by reference. No shares of Class A common stock are outstanding. The Registrant's ability to pay dividends is limited by the Registrant's Credit Agreement with Harris Trust and Savings Bank dated January 29, 1999. See Note 4 of "Notes to Consolidated Financial Statements," incorporated herein by reference. Information concerning a private placement of \$25,000,000 in principal amount of notes in April 1998 is incorporated herein by reference to Note 4 of the "Notes to the Consolidated Financial Statements." The notes were sold in reliance on the exemption from registration under the Securities Act of 1933 contained in Section 4(2) thereof, based on the fact that they were privately sold in their entirety to two financial institutions.

## ITEM 6. SELECTED FINANCIAL DATA

## TEN YEAR SUMMARY OF FINANCIAL DATA

|   | 2001                                | 2000       |    |
|---|-------------------------------------|------------|----|
|   | -----                               | -----      |    |
|   | (IN THOUSANDS EXCEPT FOR PER SHARE) |            |    |
| SUMMARY OF OPERATIONS                                 |                                     |            |    |
| Net Sales(1) .....                                    | \$ 167,862                          | \$ 171,732 | \$ |
| Cost of Sales(1) .....                                | 129,781                             | 125,184    |    |
|   | -----                               | -----      |    |
| Gross Profit(1) .....                                 | 38,081                              | 46,548     |    |
| Non-recurring Fee .....                               | 4,278                               | --         |    |
| Selling, General and Administrative Expenses(1) ..... | (38,193)                            | (39,555)   |    |
| Restructuring and Special Charges .....               | --                                  | (1,239)    |    |
|   | -----                               | -----      |    |
| Income from Operations .....                          | 4,166                               | 5,754      |    |
|   | -----                               | -----      |    |
| Other Income (Expense)                                |                                     |            |    |
| Interest Income .....                                 | 235                                 | 206        |    |
| Interest Expense .....                                | (2,916)                             | (3,185)    |    |
| Foreign Exchange (Losses) Gains .....                 | (228)                               | (173)      |    |
| Other, Net .....                                      | 212                                 | 446        |    |
|   | -----                               | -----      |    |
| Total Other Expense, Net .....                        | (2,697)                             | (2,706)    |    |
|   | -----                               | -----      |    |
| Income before Income Taxes .....                      | 1,469                               | 3,048      |    |
| Income Taxes .....                                    | 556                                 | 821        |    |
|   | -----                               | -----      |    |
| Net Income .....                                      | \$ 913                              | \$ 2,227   | \$ |
|   | =====                               | =====      |    |
| AVERAGE SHARES OUTSTANDING                            |                                     |            |    |
| Basic .....   | 5,613                               | 5,647      |    |
| Dilutive .....  | 5,613                               | 5,677      |    |
| NET INCOME PER SHARE                                  |                                     |            |    |
| Basic .....   | \$ 0.16                             | \$ 0.39    | \$ |
| Dilutive .....  | \$ 0.16                             | \$ 0.39    | \$ |
| IMPORTANT HIGHLIGHTS                                  |                                     |            |    |
| Total Assets .....                                    | \$ 130,524                          | \$ 132,844 | \$ |
| Long-Term Debt .....                                  | \$ 34,256                           | \$ 39,434  | \$ |
| Working Capital .....                                 | \$ 36,100                           | \$ 38,875  | \$ |
| Working Capital Ratio .....                           | 2.8                                 | 3.6        |    |
| Book Value per Share .....                            | \$ 12.80                            | \$ 13.01   | \$ |
| Dividends Declared .....                              | \$ 1,892                            | \$ 1,900   | \$ |
| Capital Expenditures .....                            | \$ 5,609                            | \$ 6,001   | \$ |
| Depreciation and Amortization .....                   | \$ 9,089                            | \$ 9,099   | \$ |
| Operating Cash Flows, less Capital Expenditures ....  | \$ 9,603                            | \$ (33)    | \$ |
| Long-Term Debt to Total Capital .....                 | 32.3%                               | 35.1%      |    |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|  |       |       |
|--|-------|-------|
| Net Income as a Percent of Net Sales .....         | 0.5%  | 1.3%  |
| Return on Average Stockholders' Equity .....       | 1.3%  | 3.0%  |
| Gross Profit as a Percent of Net Sales .....       | 22.7% | 27.1% |
| Operating Expenses as a Percent of Net Sales ..... | 20.2% | 23.8% |

-----  
(1) Net Sales, Gross Profit and Selling, General and Administrative Expenses have been reclassified to reflect the direction provided by EITF 00-22 and EITF 00-14 as described in Footnote 1. The reclassification for EITF 00-14 was done for all years presented. The reclassification for EITF 00-22 was done for fiscal years 2001-1995.

14

| YEAR ENDED JULY 31 |            |            |            |            |            |
|--------------------|------------|------------|------------|------------|------------|
| 1997               | 1996       | 1995       | 1994       | 1993       | 1992       |
| -----              | -----      | -----      | -----      | -----      | -----      |
| \$ 154,056         | \$ 150,461 | \$ 149,829 | \$ 146,147 | \$ 139,558 | \$ 122,322 |
| 108,687            | 107,730    | 108,268    | 102,457    | 97,396     | 85,116     |
| -----              | -----      | -----      | -----      | -----      | -----      |
| 45,369             | 42,731     | 41,561     | 43,690     | 42,162     | 37,206     |
| --                 | --         | --         | --         | --         | --         |
| (34,700)           | (35,827)   | (28,851)   | (29,394)   | (28,245)   | (26,704)   |
| --                 | (921)      | --         | --         | --         | --         |
| -----              | -----      | -----      | -----      | -----      | -----      |
| 10,669             | 5,983      | 12,710     | 14,296     | 13,917     | 10,502     |
| -----              | -----      | -----      | -----      | -----      | -----      |
| 637                | 587        | 448        | 441        | 452        | 515        |
| (1,775)            | (1,917)    | (1,921)    | (1,752)    | (1,729)    | (1,884)    |
| --                 | (7)        | (5)        | 3          | (88)       | 63         |
| (17)               | 137        | (84)       | 171        | (298)      | 15         |
| -----              | -----      | -----      | -----      | -----      | -----      |
| (1,155)            | (1,200)    | (1,562)    | (1,137)    | (1,663)    | (1,291)    |
| -----              | -----      | -----      | -----      | -----      | -----      |
| 9,514              | 4,783      | 11,148     | 13,159     | 12,254     | 9,211      |
| 2,721              | 1,409      | 3,145      | 3,307      | 2,834      | 2,110      |
| -----              | -----      | -----      | -----      | -----      | -----      |
| \$ 6,793           | \$ 3,374   | \$ 8,003   | \$ 9,852   | \$ 9,420   | \$ 7,101   |
| =====              | =====      | =====      | =====      | =====      | =====      |
| 6,596              | 6,806      | 6,932      | 6,990      | 6,995      | 6,994      |
| 6,599              | 6,807      | 6,936      | 7,011      | 7,031      | 7,026      |
| \$ 1.03            | \$ 0.50    | \$ 1.15    | \$ 1.41    | \$ 1.35    | \$ 1.02    |
| \$ 1.03            | \$ 0.50    | \$ 1.15    | \$ 1.41    | \$ 1.34    | \$ 1.01    |
| \$ 114,558         | \$ 117,693 | \$ 116,988 | \$ 112,267 | \$ 102,117 | \$ 95,018  |
| \$ 17,052          | \$ 18,978  | \$ 20,422  | \$ 21,521  | \$ 17,766  | \$ 18,831  |
| \$ 31,165          | \$ 30,399  | \$ 33,074  | \$ 29,337  | \$ 26,043  | \$ 24,359  |
| 3.0                | 2.7        | 3.1        | 3.0        | 2.7        | 2.8        |



Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|          |          |          |            |          |          |
|----------|----------|----------|------------|----------|----------|
| \$ 12.03 | \$ 11.46 | \$ 11.35 | \$ 10.51   | \$ 9.50  | \$ 8.66  |
| \$ 1,936 | \$ 2,022 | \$ 2,047 | \$ 1,807   | \$ 1,679 | \$ 1,548 |
| \$ 5,395 | \$ 7,184 | \$ 7,032 | \$ 13,559  | \$ 9,158 | \$ 8,040 |
| \$ 7,587 | \$ 7,926 | \$ 7,808 | \$ 6,798   | \$ 5,835 | \$ 5,407 |
| \$ 8,349 | \$ 6,208 | \$ 5,285 | \$ (3,734) | \$ 5,080 | \$ 645   |
| 18.1%    | 19.7%    | 20.7%    | 22.8%      | 21.1%    | 24.0%    |
| 4.4%     | 2.2%     | 5.3%     | 6.7%       | 6.7%     | 5.8%     |
| 8.8%     | 4.3%     | 10.6%    | 14.1%      | 14.9%    | 12.3%    |
| 29.4%    | 28.4%    | 27.7%    | 29.9%      | 30.2%    | 30.4%    |
| 22.5%    | 24.4%    | 19.3%    | 20.1%      | 20.2%    | 21.8%    |

15

[INTENTIONALLY LEFT BLANK]

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

Results of Operations

Fiscal 2001 Compared to Fiscal 2000

Consolidated net sales for the year ended July 31, 2001, were \$167,862,000, a decrease of 2.3% from net sales of \$171,732,000 in fiscal 2000. This decline was due to decreased sales in the Consumer Products and the Specialty Products segments, partially offset by increased sales in the Crop Production and Horticultural Products and Industrial Products segments. Basic and diluted net income per share was \$0.16 for fiscal 2001, versus basic and diluted net income per share of \$0.39 in fiscal 2000. This decrease was due to lower sales, an unfavorable product mix in our Consumer Products Group, a significant increase (\$3,100,000) in energy costs used in the Company's manufacturing processes, increased mining costs, unfavorable foreign exchange rate fluctuations and competitive activities which negatively impacted our Specialty Products Group. Positively impacting earnings was a non-recurring fee of \$4,278,000, which resulted from the early termination of a supply agreement.

Net sales for the Consumer Products segment for fiscal 2001 were \$107,921,000, a decrease of 3.8% from net sales of \$112,227,000 in fiscal 2000. Increased sales of private label product to both grocery and mass merchandisers was overshadowed by lower sales of branded clay and paper cat litter and contract-manufactured cat litter. Consumer Products' operating income declined 48.1% from \$14,212,000 in fiscal 2000 to \$7,379,000 in fiscal 2001. This decline was due to significant increases in energy costs used in the Company's

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

manufacturing processes, reduced paper litter sales, competitive activities, unfavorable product mix, reduced co-packaged cat litter sales and increased material costs in our Canadian operation.

Net sales of Specialty Products Group for fiscal 2001 were \$23,678,000, a decrease of 5.0% from net sales of \$24,919,000 in fiscal 2000. While North American and Latin American sales of PURE FLO(R) bleaching clays remained flat compared to fiscal 2000 levels, European sales, specifically by the Company's United Kingdom subsidiary, decreased. Export sales were hampered by the relative strength of the U.S. dollar versus other currencies, particularly the Euro. Also, the Specialty Products Group lost a key European customer late in fiscal 2000. Highlights for this area were increased sales of ULTRA CLEAR(R) and SELECT(TM) products. Operating income for the Specialty Products segment decreased 28.9% from \$3,863,000 in fiscal 2000 to \$2,747,000 in fiscal 2001. This decrease was due to higher fuel costs, competitive activities and unfavorable exchange rate fluctuations.

Fiscal year 2000 net sales and operating income reflect a reclassification of \$2,250,000 and \$(346,000), respectively, for Animal Health and Nutrition products and customers moved from the Crop Production and Horticultural Products segment to the Specialty Products segment.

Net sales of the Crop Production and Horticultural Products segment for fiscal 2001 were \$16,691,000, an increase of 4.6% from net sales of \$15,949,000 in fiscal 2000. This increase is due to increased sales of SOILMASTER(R) sports field conditioners. Crop Production and Horticultural Products operating income decreased 13.4% from \$2,229,000 in fiscal 2000 to \$1,931,000 in fiscal 2001, due to the increased energy costs in our manufacturing processes.

Net sales of the Industrial and Automotive Products segment for fiscal year 2001 were \$19,572,000, an increase of 5.0% from net sales of \$18,637,000 in fiscal 2000 due to increased sales of Lites products and general price increases instituted during the year. Industrial and Automotive Products' operating income increased 7.6% from \$1,008,000 in fiscal 2000 to \$1,085,000 in fiscal 2001 due to the increase in sales and pricing discussed above.

Consolidated gross profit as a percentage of net sales for fiscal 2001 decreased to 22.7% from 27.1% in fiscal 2000. This decline was due to an unfavorable sales mix in the Consumer Products, reduction of contract-manufactured sales, reduced export profitability due to unfavorable exchange rate fluctuation, competitive activities, mining costs and a significant increase (\$3,100,000) in our energy costs associated with our manufacturing processes.

Operating expenses as a percentage of net sales decreased to 20.2% for fiscal 2001 from 23.8% in fiscal 2000. Excluding the restructuring charge recorded in the second quarter of fiscal 2000, operating expenses as a percentage of net sales were 23.0%. The two other major factors which positively impacted operating income were the non-recurring fee income and a reduction in discretionary incentive compensation.

17

Fiscal 2001 interest expense was down \$269,000 from fiscal 2000. Long term debt was reduced by approximately \$4,800,000 during the year. At July 31, 2001, the Company did not have any outstanding borrowing against the revolving line of credit. At July 31, 2000 the outstanding borrowings were \$3,020,000.

Interest income increased slightly from fiscal 2000.

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

The Company's effective tax rate was 37.9% of income before tax in fiscal 2001 and 26.9% in fiscal 2000. See Note 5 in the Notes to the Consolidated Financial Statements for the principal reasons for the increase.

Total assets of the Company decreased \$2,320,000 or 1.7% during the year ended July 31, 2001. Current assets increased \$1,783,000 from fiscal 2000 year end balances primarily due to increased cash and cash equivalents and accounts receivable balances, offset by decreased inventories and income taxes receivables. Property, plant and equipment, net of accumulated depreciation, decreased \$3,576,000 during the year as depreciation expense exceeded capital expenditures.

Total liabilities decreased \$1,202,000 or 2.0% during the year due primarily to decreased noncurrent notes payable balances, partially offset by increased trade payables and accrued trade promotion and advertising balances. Current liabilities increased \$4,558,000 or 30.2% from July 31, 2000 balances, due to the increased trade payables and accruals stated above.

### Expectations

The Company anticipates net sales for fiscal 2002 will be in line with the net sales of fiscal 2001. Sales of branded cat box absorbents are expected to be flat during the year consistent with projected sales in the overall category. However, profitability of branded cat box absorbents is expected to increase moderately due to improved spending controls. Sales of contract-manufactured and private label litters are expected to increase moderately. Within the Crop Production and Horticultural Products segment, sales of agricultural carriers are expected to be up slightly due to recapturing of prior lost business. Moderate sales growth is expected from market growth and increased market share of our poultry litter and sports turf products. Sales of the Company's Specialty products are expected to increase moderately in fiscal 2002, while sales of Industrial and Automotive products are expected to be down due to the general economic climate.

### Liquidity and Capital Resources

The current ratio decreased to 2.8 at July 31, 2001 from 3.6 at July 31, 2000. Working capital decreased \$2,775,000 during fiscal 2001 to \$36,100,000. Cash provided by operations continues to be the Company's primary source of funds to finance ordinary investing and financing activities. During the year, the balances of cash, cash equivalents and investment securities increased \$3,094,000. Cash provided by operating activities of \$14,716,000 and cash on hand were used to fund capital expenditures (\$5,609,000), principal payments on long term debt (\$4,777,000), dividend payments (\$1,892,000). Total cash and investment balances held by the Company's foreign subsidiaries at July 31, 2001 and July 31, 2000 were \$2,241,000 and \$2,366,000, respectively.

Liquidity needs have been, and are expected to be, met through internally generated funds and, to the extent needed, borrowings under the Company's revolving credit facility with Harris Trust and Savings. The credit agreement contains restrictive covenants that, among other things and under various conditions, limit the Company's ability to incur additional indebtedness, to acquire (including a limitation on capital expenditures) or dispose of assets and to pay dividends.

The Company believes that cash flow from operations and availability under its revolving credit facility will provide adequate funds for foreseeable working capital needs, capital expenditures at existing facilities and debt service obligations. However, should new facility construction occur, it is anticipated that additional borrowings of a long-term nature will be required outside the existing credit facility.

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

The Company's ability to fund operations, make planned capital expenditures, including new facility construction, to make scheduled debt payments and to remain in compliance with all of the financial covenants under debt agreements depends on its future operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors.

18

The Company entered into an amendment with Teachers Insurance and Annuity Association and CIGNA Investments, Inc. to amend its Note Purchase Agreement dated as of April 15, 1998 ("1998 Note Agreement") to modify the fixed charges coverage ratio covenant therein from the prior ratio of 1.5 to 1, to the new ratios as follows: (i) for the period ending November 1, 2000 through April 30, 2001 - ratio of 1.00 to 1; (ii) for the period ending May 1, 2001 through October 31, 2001 - ratio of 1.15 to 1; for the period ending November 1, 2001 through July 31, 2002 - ratio of 1.25 to 1; and for the period ending August 1, 2002 and thereafter - ratio of 1.50 to 1.

The Company also entered into amendments with Teachers Insurance and Annuity Association of its Note Agreement dated as of April 15, 1993 and its Note Agreement dated as of April 15, 1991 to add a fixed charges coverage ratio on substantially the same terms as those in the 1998 Note Agreement as amended.

### Results of Operations

#### Fiscal 2000 Compared to Fiscal 1999

Consolidated net sales for the year ended July 31, 2000, were \$171,732,000, an increase of 0.3% over net sales of \$171,217,000 in fiscal 1999. This increase was due to increased sales in the Consumer Products and Industrial and Automotive Products segments, partially offset by decreased sales in the Crop Production and Horticultural Products and Specialty Products segments. Basic and diluted net income per share was \$0.39 for fiscal 2000, versus basic net income per share of \$1.23 and diluted net income per share of \$1.20 in fiscal 1999. This decrease was due to a restructuring charge recorded in the second quarter of fiscal 2000, additional manufacturing costs associated with the start-up of the Church & Dwight Co., Inc. supply agreement, significant increases in energy costs used in the Company's manufacturing processes, increased costs of packaging and distribution, unfavorable foreign exchange rate fluctuations and a decline in demand for agricultural carriers. The restructuring charge covered severance costs for certain eliminated positions (\$604,000) and the write-off of non-performing assets (\$635,000). This charge reduced income before taxes by \$1,239,000, net income by \$879,000 and basic and fully diluted net income per share by \$0.16 and \$0.15, respectively, for the year ended July 31, 2000.

Net sales for the Consumer Products segment for fiscal 2000 were \$112,227,000, an increase of 0.3% over net sales of \$111,936,000 in fiscal 1999. Increased sales of contract-manufactured cat litter, primarily FRESH STEP(R) manufactured for The Clorox Company and Arm & Hammer SUPER CLAY(TM) brand manufactured for Church & Dwight Co., Inc., offset reduced sales of branded products and the reduced grocery distribution for paper cat litter products. Consumer Products' operating income declined 18.0% from \$17,331,000 in fiscal 1999 to \$14,212,000 in fiscal 2000. This decline was due to significant increases in energy costs used in the Company's manufacturing processes, packaging costs, distribution costs, inefficient trade spending, start-up costs of the Church & Dwight supply agreement and unfavorable sales mix relative to fiscal 1999.

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Net sales of the Specialty Products segment for fiscal 2000 were \$24,919,000, an increase of 1.2% from net sales of \$24,634,000 in fiscal 1999. While North American and Latin American sales of PURE FLO(R) bleaching clays and ULTRA CLEAR(R) clarification aids increased over fiscal 1999 levels, European sales, specifically by the Company's United Kingdom subsidiary, decreased. Export sales were also hampered by the relative strength of the U.S. dollar versus other currencies, particularly the Euro. Operating income for the Specialty Products segment decreased 28.9% from \$5,436,000 in fiscal 1999 to \$3,863,000 in fiscal 2000. This decrease was due to higher manufacturing costs, competitive activities leading to defensive pricing strategies and unfavorable exchange rate fluctuations.

Fiscal year 2000 and 1999 net sales reflect a reclassification of \$2,250,000 and \$1,563,000, respectively, for Animal Health and Nutrition products and customers moved from the Crop Production and Horticultural Products segment to the Specialty Products segment. Fiscal year 2000 and 1999 operating income reflects a reclassification of \$(346,000) and \$(205,000), respectively for the same reclassification.

Net sales of the Crop Production and Horticultural Products segment for fiscal 2000 were \$15,949,000, a decrease of 9.2% from net sales of \$17,556,000 in fiscal 1999. This decline is due to reduced crop protection product formulations by the Company's agricultural chemical customers resulting from a depressed farm economy. Crop Production and Horticultural Products operating income decreased 39.2% from \$3,669,000 in fiscal 1999 to \$2,229,000 in fiscal 2000, due to the unfavorable sales mix, increased manufacturing costs and railcar expenses.

19

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

Consolidated gross profit as a percentage of net sales for fiscal 2000 decreased to 27.1% from 30.4% in fiscal 1999. This decline was due to an unfavorable sales mix in the Consumer Products and Crop Production and Horticultural Products segments, defensive pricing strategies in the overseas markets of the Specialty Products segment, reduced export profitability due to unfavorable exchange rate fluctuation, startup costs associated with the Church & Dwight Co., Inc. agreement as well as higher manufacturing costs in the form of increased energy, packaging and distribution costs.

Operating expenses as a percentage of net sales increased to 23.8% for fiscal 2000 from 23.6% in fiscal 1999. Excluding the restructuring charge recorded in the second quarter of fiscal 2000, operating expenses as a percentage of net sales were 23.0%.

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

Interest income declined \$274,000 from fiscal 1999 due to lower levels

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

of funds available for investment.

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

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

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

### Foreign Operations

Net sales by the Company's foreign subsidiaries during fiscal 2001 were \$11,799,000 or 7.0% of total Company sales. This represents a decrease of 11.9% from fiscal 2000 in which foreign subsidiary sales were \$13,389,000 or 7.8% of total Company sales. This decrease is due to lower sales of Specialty products in the United Kingdom. Net loss of the foreign subsidiaries for fiscal 2001 was \$325,000, a significant increase from net loss of \$27,000 in fiscal 2000. This increase was primarily due to lower gross profit in Canada, which was caused by higher material and transportation costs and the loss of a key customer and foreign currency issues in the United Kingdom. Identifiable assets of the Company's foreign subsidiaries as of July 31, 2001 were \$9,809,000, a decrease of \$274,000 from \$10,083,000 as of July 31, 2000.

Net sales by the Company's foreign subsidiaries during fiscal 2000 were \$13,389,000 or 7.8% of total Company sales. This represents a decrease of 7.7% from fiscal 1999 in which foreign subsidiary sales were \$14,501,000 or 8.5% of total Company sales. This decrease is due to lower sales of Specialty products in the United Kingdom. Net loss of the foreign subsidiaries for fiscal 2000 was \$27,000, a decrease of 104.6% from net income of \$590,000 earned in fiscal 1999. This decrease was primarily due to unfavorable changes in sales mix and the loss of a key customer in the United Kingdom. Identifiable assets of the Company's foreign subsidiaries as of July 31, 2000 were \$10,083,000, a decrease of \$981,000 from \$11,064,000 as of July 31, 1999.

### Forward-Looking Statements

Certain statements in this report, including, but not limited to, those under the heading "Expectations" and those statements elsewhere in this report that use forward-looking terminology such as "expect," "would," "could," "should," "estimates," and "believes" are "forward-looking statements" within the meaning of that term in the Securities Exchange Act of 1934, as amended. Actual results may differ materially from those reflected in these forward-looking statements, due primarily to continued vigorous competition in the grocery, mass merchandiser and club markets and specialty product markets,

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

the level of success of new products, and the cost of product introductions and promotions in the consumer market. These forward-looking statements also involve the risk of changes in market conditions in the overall economy and, for the fluids purification and agricultural markets, in planting activity, crop quality, and overall agricultural demand, including export demand, fluctuations of energy costs and foreign exchange rate fluctuations. Other factors affecting these forward-looking statements may be detailed from time to time in reports filed with the Securities and Exchange Commission.

### ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company did not have any derivative financial instruments as of July 31, 2001. However, the Company is exposed to interest rate risk. The Company employs policies and procedures to manage its exposure to changes in the market risk of its cash equivalents and short-term investments. The Company believes that the market risk arising from holdings of its financial instruments is not material.

The Company is exposed to commodity price risk with respect to natural gas. The Company has contracted for a major portion of its fuel needs for fiscal 2002 using forward purchase contracts to manage the volatility related to this exposure. No contracts were entered into for speculative purposes. These contracts will reduce the volatility in fuel prices, and the weighted average cost of these contracts will be consistent with the increased prices paid in fiscal 2001.

The table below provides information about the Company's 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, 2002. 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 28, 2001.

#### COMMODITY PRICE SENSITIVITY NATURAL GAS FUTURE CONTRACTS FOR THE YEAR ENDING JULY 31, 2002

|   | Expected 2002 Maturity | Fair Value |
|---|------------------------|------------|
| Natural Gas Future Volumes (MMBtu's)    | 1,420,000              | --         |
| Weighted Average Price (Per MMBtu)      | \$ 4.61                | \$ --      |
| Contract Amount (\$ U.S., in thousands) | \$ 6,548.1             | \$ 3,774.1 |

Factors which could influence the fair value of the natural gas contracts include, but are not limited to, the overall general economy, the recent events which occurred on September 11, 2001 in New York and Washington, the general demand of 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 the Company 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 the Company's fiscal 2002 financial results are difficult to make due to the inherent uncertainty of future fluctuations in option

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

contract prices in the natural gas options market.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

|  | -----<br>2001<br>-----<br>(IN THO |
|--|-----------------------------------|
| ASSETS   |                                   |
| CURRENT ASSETS   |                                   |
| Cash and cash equivalents .....  | \$ 4,444                          |
| Investment securities .....  | 1,257                             |
| Accounts receivable, less allowance of \$1,858 in 2001 and \$836 in 2000 ..                                | 24,267                            |
| Non-recurring fee receivable .....   | 2,078                             |
| Inventories .....  | 15,445                            |
| Income taxes receivable .....  | 419                               |
| Prepaid stripping expense .....  | 3,797                             |
| Prepaid expenses .....   | 4,035                             |
|  | -----                             |
| Total Current Assets .....   | 55,742                            |
|  | -----                             |
| PROPERTY, PLANT AND EQUIPMENT, AT COST   |                                   |
| Buildings and leasehold improvements .....   | 21,647                            |
| Machinery and equipment .....  | 92,037                            |
| Office furniture and equipment .....   | 9,994                             |
| Vehicles .....   | 4,889                             |
|  | -----                             |
|  | 128,567                           |
| Less accumulated depreciation and amortization .....   | (83,694)                          |
|  | -----                             |
|  | 44,873                            |
| Construction in progress .....   | 3,430                             |
| Land .....   | 7,733                             |
|  | -----                             |
| Total Property, Plant and Equipment, Net .....   | 56,036                            |
|  | -----                             |
| OTHER ASSETS   |                                   |
| Goodwill and intangibles (Net of accumulated<br>amortization of \$3,569 in 2001 and \$2,664 in 2000) ..... | 9,691                             |
| Deferred income taxes .....  | 3,155                             |
| Other .....  | 5,900                             |
|  | -----                             |
| Total Other Assets .....   | 18,746                            |



Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Total Assets ..... \$ 130,524

22

2001

(IN THOU)

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

|   |            |
|---|------------|
| Current maturities of notes payable ..... | \$ 2,150   |
| Accounts payable .....                    | 5,791      |
| Dividends payable .....                   | 473        |
| Accrued expenses                          |            |
| Salaries, wages and commissions .....     | 1,524      |
| Trade promotions and advertising .....    | 4,006      |
| Freight .....                             | 1,312      |
| Other .....                               | 4,386      |
| <br>Total Current Liabilities .....       | <br>19,642 |

NONCURRENT LIABILITIES

|  |            |
|--|------------|
| Notes payable .....                    | 34,256     |
| Deferred compensation .....            | 2,769      |
| Other .....                            | 2,011      |
| <br>Total Noncurrent Liabilities ..... | <br>39,036 |
| <br>Total Liabilities .....            | <br>58,678 |

STOCKHOLDERS' EQUITY

|   |         |
|---|---------|
| Common Stock, par value \$.10 per share, issued 5,470,435<br>shares in 2001 and 2000 .....                                      | 547     |
| Class B Stock, par value \$.10 per share, issued 1,765,083<br>shares in 2001 and 2000 .....                                     | 177     |
| Additional paid-in capital .....  | 7,667   |
| Retained earnings .....   | 89,778  |
| Restricted unearned stock compensation .....  | (25)    |
| Cumulative translation adjustments .....  | (1,474) |
|   | 96,670  |
| <br>Less treasury stock, at cost (1,279,110 Common shares and 342,241 Class B<br>shares in 2001 and 1,283,769 Common shares and |         |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|  |            |
|--|------------|
| 342,241 Class B shares in 2000) .....            | (24,824    |
| Total Stockholders' Equity .....                 | 71,846     |
| Total Liabilities and Stockholders' Equity ..... | \$ 130,524 |

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

23

CONSOLIDATED STATEMENTS OF INCOME

|  | YEAR ENDED JULY 31,                         |            |            |
|--|---|------------|------------|
|  | 2001  | 2000       | 1999       |
|  | (IN THOUSANDS<br>EXCEPT FOR PER SHARE DATA) |            |            |
| NET SALES .....                                  | \$ 167,862                                  | \$ 171,732 | \$ 171,211 |
| COST OF SALES .....                              | 129,781                                     | 125,184    | 119,121    |
| GROSS PROFIT .....                               | 38,081                                      | 46,548     | 52,090     |
| NON-RECURRING FEE .....                          | 4,278                                       | --         | --         |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ... | (38,193)                                    | (39,555)   | (40,341)   |
| RESTRUCTURING AND SPECIAL CHARGES .....          | --  | (1,239)    | --         |
| INCOME FROM OPERATIONS .....                     | 4,166                                       | 5,754      | 11,750     |
| OTHER INCOME (EXPENSE)                           |   |            |            |
| Interest income .....                            | 235   | 206        | 48         |
| Interest expense .....                           | (2,916)                                     | (3,185)    | (3,185)    |
| Foreign exchange losses .....                    | (228)                                       | (173)      | (121)      |
| Other investment (loss) income .....             | (76)  | 254        | 93         |
| Other, net .....                                 | 288   | 192        | 171        |
| Total Other Expense, Net .....                   | (2,697)                                     | (2,706)    | (1,711)    |
| INCOME BEFORE INCOME TAXES .....                 | 1,469                                       | 3,048      | 10,030     |
| INCOME TAXES .....                               | 556   | 821        | 2,861      |
| NET INCOME .....                                 | \$ 913                                      | \$ 2,227   | \$ 7,170   |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|                            |         |         |        |
|----------------------------|---------|---------|--------|
| NET INCOME PER SHARE       |         |         |        |
| Basic .....                | \$ 0.16 | \$ 0.39 | \$ 1.2 |
|                            | =====   | =====   | =====  |
| Dilutive .....             | \$ 0.16 | \$ 0.39 | \$ 1.2 |
|                            | =====   | =====   | =====  |
| AVERAGE SHARES OUTSTANDING |         |         |        |
| Basic .....                | 5,613   | 5,647   | 5,82   |
|                            | =====   | =====   | =====  |
| Dilutive .....             | 5,613   | 5,677   | 5,99   |
|                            | =====   | =====   | =====  |

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

24

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | COMMON &<br>CLASS B<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | RETAINED<br>EARNINGS | RESTRICTED<br>UNEARNED<br>STOCK<br>COMPENSATION | TREA<br>ST |
|---|------------------------------|----------------------------------|----------------------|---|------------|
|   | -----                        | -----                            | -----                | -----   | -----      |
|   | (IN THOUSANDS)               |                                  |                      |   |            |
| BALANCE, JULY 31, 1998 .....                                  | \$ 724                       | \$ 7,702                         | \$ 85,158            | \$ (51)   | \$ (2)     |
| Net Income .....  | --                           | --                               | 7,176                | --  | --         |
| Cumulative Translation Adjustments ...                        | --                           | --                               | --                   | --  | --         |
| Total Comprehensive Income .....                              |                              |                                  |                      |   |            |
| Dividends Declared .....                                      | --                           | --                               | (1,904)              | --  | --         |
| Purchases of Treasury Stock .....                             | --                           | --                               | --                   | --  | --         |
| Amortization of Restricted Common<br>Stock Compensation ..... | --                           | --                               | --                   | 42  | --         |
| BALANCE, JULY 31, 1999 .....                                  | 724                          | 7,702                            | 90,430               | (9)   | (2)        |
| Net Income .....  | --                           | --                               | 2,227                | --  | --         |
| Cumulative Translation Adjustments ...                        | --                           | --                               | --                   | --  | --         |
| Total Comprehensive Income .....                              |                              |                                  |                      |   |            |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|  |        |          |           |         |        |
|--|--------|----------|-----------|---------|--------|
| Dividends Declared .....                                       | --     | --       | (1,900)   | --      |        |
| Purchases of Treasury Stock .....                              | --     | --       | --        | --      |        |
| Issuance of Stock Under 1995 Long-Term<br>Incentive Plan ..... | --     | (4)      | --        | (33)    |        |
| Amortization of Restricted Common<br>Stock Compensation .....  | --     | --       | --        | 32      |        |
|  | -----  | -----    | -----     | -----   | -----  |
| BALANCE, JULY 31, 2000 .....                                   | 724    | 7,698    | 90,757    | (10)    | (2)    |
| <br>   |        |          |           |         |        |
| Net Income .....   | --     | --       | 913       | --      |        |
| Cumulative Translation Adjustments ...                         | --     | --       | --        | --      |        |
| <br>   |        |          |           |         |        |
| Total Comprehensive Income .....                               |        |          |           |         |        |
| <br>   |        |          |           |         |        |
| Dividends Declared .....                                       | --     | --       | (1,892)   | --      |        |
| Purchases of Treasury Stock .....                              | --     | --       | --        | --      |        |
| Issuance of stock under 1995<br>Long-Term Incentive Plan ..... | --     | (31)     | --        | (43)    |        |
| Amortization of Restricted Common<br>Stock Compensation .....  | --     | --       | --        | 28      |        |
|  | -----  | -----    | -----     | -----   | -----  |
| BALANCE, JULY 31, 2001 .....                                   | \$ 724 | \$ 7,667 | \$ 89,778 | \$ (25) | \$ (2) |
|  | =====  | =====    | =====     | =====   | =====  |

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

25

CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | YEAR ENDED JULY 31, |          |
|--|---------------------|----------|
|  | 2001                | 2000     |
|  | -----               | -----    |
|  | (IN THOUSANDS)      |          |
| CASH FLOWS FROM OPERATING ACTIVITIES   |                     |          |
| Net income .....   | \$ 913              | \$ 2,227 |
|  | -----               | -----    |
| Adjustments to reconcile net income<br>to net cash provided by operating activities: |                     |          |
| Depreciation and amortization .....  | 9,089               | 9,099    |
| Non-cash restructuring and special charges .....                                     | --                  | 716      |
| Deferred income taxes .....  | (549)               | 439      |
| Provision for bad debts .....  | 1,045               | 523      |
| (Increase) decrease in   |                     |          |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|  |          |          |
|--|----------|----------|
| Accounts receivable .....                                  | (2,952)  | 404      |
| Income taxes receivable .....                              | --       | (2,267)  |
| Inventories .....  | 1,483    | (1,763)  |
| Prepaid stripping expense .....                            | (1,411)  | (683)    |
| Prepaid expenses and taxes .....                           | 3,146    | (73)     |
| Other assets .....   | 378      | (2,426)  |
| Increase (decrease) in                                     |          |          |
| Accounts payable .....                                     | 988      | (38)     |
| Accrued expenses .....                                     | 3,250    | (410)    |
| Deferred compensation .....                                | (344)    | (94)     |
| Other .....  | (320)    | 302      |
|  | -----    | -----    |
| Total Adjustments .....                                    | 13,803   | 3,729    |
|  | -----    | -----    |
| Net Cash Provided by Operating Activities .....            | 14,716   | 5,956    |
|  | -----    | -----    |
| <br>CASH FLOWS FROM INVESTING ACTIVITIES                   |          |          |
| Capital expenditures .....                                 | (5,609)  | (6,001)  |
| Proceeds from sale of property, plant and equipment ....   | 496      | 12       |
| Purchases of investment securities .....                   | (2,487)  | (1,219)  |
| Dispositions of investment securities .....                | 2,450    | 1,225    |
| Other .....  | 237      | (9)      |
|  | -----    | -----    |
| Net Cash Used in Investing Activities .....                | (4,913)  | (5,992)  |
|  | -----    | -----    |
| <br>CASH FLOWS FROM FINANCING ACTIVITIES                   |          |          |
| Principal payments on long-term debt .....                 | (4,777)  | (2,226)  |
| Proceeds from issuance of long-term debt .....             | --       | 3,033    |
| Dividends paid .....                                       | (1,892)  | (1,911)  |
| Purchase of treasury stock .....                           | (3)      | (1,751)  |
| Other .....  | (75)     | (83)     |
|  | -----    | -----    |
| Net Cash Used in Financing Activities .....                | (6,747)  | (2,938)  |
|  | -----    | -----    |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ..... | 3,056    | (2,974)  |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....         | 1,388    | 4,362    |
|  | -----    | -----    |
| CASH AND CASH EQUIVALENTS, END OF YEAR .....               | \$ 4,444 | \$ 1,388 |
|  | =====    | =====    |

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Oil-Dri Corporation of America and its subsidiaries, all of which are wholly owned. All

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

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.

### Revenue Recognition

Revenues from sales of products are recognized upon shipment.

### Income Taxes

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

No provision has been made for possible income taxes which may be paid on the distribution of approximately \$16,082,000 and \$16,953,000 as of July 31, 2001 and 2000, respectively, of retained earnings of foreign subsidiaries, as substantially all such amounts are intended to be indefinitely invested in these subsidiaries or no additional income taxes would be incurred when such earnings are distributed. It is not practicable to determine the amount of income taxes or withholding taxes that would be payable upon the remittance of assets that represent those earnings.

### Reclassification

Certain items in prior year financial statements have been reclassified to conform to the presentation used in fiscal 2001.

### Translation of Foreign Currencies

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

### Cash Equivalents

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Inventories

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

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

|                     |    | 2001   |
|---------------------|----|--------|
|                     |    | -----  |
|                     |    | (IN T  |
| Finished goods..... | \$ | 9,473  |
| Packaging.....      |    | 4,029  |
| Other.....          |    | 1,943  |
|                     |    | -----  |
|                     | \$ | 15,445 |
|                     |    | =====  |

### Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments in government backed instruments, both foreign and domestic, and with other quality institutions. Concentrations of credit risk with respect to accounts receivable are subject to the financial condition of certain major customers, principally the customer referred to in Note 3. The Company generally does not require collateral to secure customer receivables.

### Property, Plant and Equipment

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

|   |  | YEARS |
|---|--|-------|
|   |  | ----- |
| Buildings and leasehold improvements..... |  | 5-30  |
| Machinery and equipment.....              |  | 2-20  |
| Office furniture and equipment.....       |  | 2-10  |
| Vehicles.....                             |  | 2-8   |

### Research and Development

Research and development costs of \$1,953,000, \$1,951,000 and \$2,110,000 were charged to expense as incurred for the years ended July 31, 2001, 2000 and 1999, respectively.

### Intangibles and Goodwill

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

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

### Advertising Costs

The Company defers recognition of advertising production costs until the first time the advertising takes place; other advertising costs are expensed as incurred. Advertising expenses were \$2,042,000, \$2,252,000 and \$3,408,000 for the years ended July 31, 2001, 2000 and 1999, respectively.

28

### 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, were carried at amounts approximating fair value as of July 31, 2001 and 2000. The fair value of notes payable was estimated based on future cash flows discounted at current interest rates available to the Company for debt with similar maturities and characteristics. The fair value of notes payable as of July 31, 2001 and 2000 was less than its carrying value by approximately \$201,000 and \$2,880,000, respectively.

#### New Accounting Standards

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

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." This statement established new standards for the way companies report information about operating segments and requires that those enterprises report selected information about operating segments in the financial reports issued to stockholders. The Company adopted this standard in July 1999 (see Note 3).

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pension and Other Postretirement Benefits." This statement revises employers' disclosures about pensions and other postretirement benefit plans. It does not change the measurement or recognition of those plans in the financial statements. The Company's adoption of this new standard in July 1999 did not result in material changes to the previously reported amounts. See Note 8 for further discussion.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities an amendment of SFAS No. 133," (SFAS No. 138), which was required to be adopted in years beginning after June 15, 2000. One of the primary amendments to SFAS No. 133 establishes a "normal purchases and normal sales" exception. This exception permits companies to exclude contracts which provide for the purchase or sale of



## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

something other than a financial derivative instrument that will be delivered in quantities expected to be used or sold by the entity over a reasonable period of time in the normal course of business operations. The Company has forward purchase contracts for certain natural gas commodities that qualify for the "normal purchase" exception provisions of the amended statement. The adoption of SFAS No. 133 as amended by SFAS No. 138 had no material impact on either the financial position or results of operations.

In September 2000, the Emerging Issues Task Force (EITF) issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." Under the provisions of EITF 00-10, amounts billed to a customer in a sales transaction related to shipping and handling should be classified as revenue. Effective May 1, 2001, the Company adopted EITF 00-10, which did not have an effect on the amounts classified as revenue or costs of other services. The adoption had no impact on the determination of net income.

Effective May 1, 2001, the Company adopted Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 provides the Securities and Exchange Commission's views in applying accounting principles generally accepted in the United States to revenue recognition in the financial statements. The adoption of SAB 101 did not have an effect on the financial statements of the Company.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets", effective for years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will

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

continue to be amortized over their useful lives. The pooling of interests method is no longer permitted for business combinations after June 30, 2001. Early adoption is permitted for companies with fiscal years beginning after March 15, 2001 provided that their first quarter financial statements have not been issued. The Company is not required to adopt this new standard until fiscal year ended July 31, 2003 and is currently evaluating its impact.

In April 2001, the EITF reached a final consensus on Issue 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." The consensus addresses the accounting treatment and income statement classification for certain sales incentives, including cooperative advertising arrangements, buydowns and slotting fees. The consensus requires that slotting fees, now classified by the Company as selling, general and administrative expense, be reclassified as a reduction of gross sales. These guidelines will become effective for the Company during the third quarter of fiscal 2002. The adoption of EITF 00-25 is not expected to materially impact the Company's financial statements.

In 2000, the EITF discussed a number of topics related to certain expenses that the Company reports in merchandising expenses, a component of SG&A expenses. In January 2001, the EITF issued No. 00-22, which requires certain rebate offers and free products that are delivered subsequent to a single

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

exchange transaction to be recognized when incurred and reported as a reduction of revenue. EITF No. 00-14 was issued in May 2000 and subsequently amended in November 2000. This guidance requires certain coupon, rebate offers and free products offered concurrently with a single exchange transaction with a customer to be recognized when incurred and reported as revenue. The Company was required to adopt EITF No. 00-22 and No. 00-14 for the third quarter ending April 30, 2001, and the fourth quarter ending July 31, 2001, respectively. The effect of the adoptions of EITF No. 00-22 and No. 00-14 resulted in a reclassification of expenses and a restatement to reduce previously reported net sales and SG&A expenses. The effect of these reclassifications resulted in a reduction in net sales and a corresponding decrease in SG&A expenses of \$3,449,000, \$3,388,000 and \$2,768,000 for the years ended July 31, 2001, 2000 and 1999, respectively.

### NOTE 2 - SPECIAL CHARGES AND FEES

#### Special Charges

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

|                      |    |       |
|----------------------|----|-------|
| Severance costs      | \$ | 604   |
| Non-performing asset |    | 635   |
|                      |    | ----- |
| Restructuring charge | \$ | 1,239 |
|                      |    | ===== |

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

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

30

### NOTE 2 - SPECIAL CHARGES AND FEES (CONTINUED)

At July 31, 2001, none of the restructuring charges remained in current liabilities. A summary of the balance sheet activity for the years ended July 31 is presented below (in thousands):

|      |      |      |
|------|------|------|
| 2001 | 2000 | 1999 |
|------|------|------|

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|   | ----- | -----          | ----- |
|---|-------|----------------|-------|
|   |       | (IN THOUSANDS) |       |
| Beginning balance .....                 | \$ 81 | \$ --          | \$ 35 |
| Restructuring and special charges ..... | --    | 1,239          | -     |
| Utilization of special charges:         |       |                |       |
| Transportation business exit costs .... | --    | --             | (6)   |
| Write-off of non-performing assets .... | --    | --             | (12)  |
| Other exit costs .....                  | --    | --             | (16)  |
| Utilization of restructuring charge:    |       |                |       |
| Severance costs .....                   | (81)  | (523)          | -     |
| Write-off of non-performing assets .... | --    | (635)          | -     |
| Balance at end of year .....            | \$ -- | \$ 81          | \$ -  |
|   | ===== | =====          | ===== |

Non-Recurring Fee

On April 23, 2001, the Company signed two new long-term supply contracts with a major customer. At that time the old long-term supply contract between the Company and this customer was terminated and the Company received a termination fee of \$4,278,000, of which \$2,200,000 was received in fiscal 2001.

NOTE 3 - OPERATING SEGMENTS

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments. Under this standard, the Company has four reportable operating segments: Consumer Products Group, Specialty Products Group, Crop Production and Horticultural Products Group, and Industrial and Automotive Products Group. These segments are managed separately because each business has different economic characteristics. The Specialty Products Group was previously described as the Fluids Purification Products Group, and the Crop Production and Horticultural Products Group was described as the Agricultural Products Group. In addition, certain businesses were transferred between the Crop Production and Horticultural Products Group and the Specialty Products Group as described below.

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

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

NOTE 3 - OPERATING SEGMENTS (CONTINUED)

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|   | NET SALES      |            |               |       |
|---|----------------|------------|---------------|-------|
|   | 2001           | 2000       | 1999          | 2001  |
|   | (IN THOUSANDS) |            |               |       |
| Consumer Products .....                           | \$ 107,921     | \$ 112,227 | \$ 111,936(4) | \$ 7, |
| Specialty Products Group(2) .....                 | 23,678         | 24,919     | 24,634(2)     | 2,    |
| Crop Production & Horticulture(2) .....           | 16,691         | 15,949     | 17,556(2)     | 1,    |
| Industrial and Automotive Products .....          | 19,572         | 18,637     | 17,091        | 1,    |
| TOTAL SALES/OPERATING INCOME .....                | \$ 167,862     | \$ 171,732 | \$ 171,217    | 13,   |
| Less: Nonrecurring Fee(3) .....                   |                |            |               | 4,    |
| Special Charges(1) .....                          |                |            |               | 13,   |
| Corporate Expenses .....                          |                |            |               | 2,    |
| Interest Expense, net of interest<br>income ..... |                |            |               | 1,    |
| INCOME BEFORE INCOME TAXES .....                  |                |            |               |       |
| INCOME TAXES .....                                |                |            |               |       |
| NET INCOME .....                                  |                |            |               | \$    |

- (1) See Note 2 for a discussion of the special charge recorded in fiscal 2000.
- (2) Includes reclassification of animal health and nutrition products from the Crop Production and Horticultural Products Group to the Specialty Products Group to take advantage of international opportunities and spread the time-intensive burden of new product and market development between the business units.
- (3) See Note 2 for a discussion of the non-recurring fee recorded in fiscal 2001.
- (4) See Note 1 for a discussion of the restatement of Net Sales in fiscal 1999, 2000 and 2001.

NOTE 3 - OPERATING SEGMENTS (CONTINUED)

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

2001 2000

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

(IN THOUS

|  |            |         |
|--|------------|---------|
| Sales to unaffiliated customers:             |            |         |
| Domestic.....                                | \$ 156,063 | \$ 158, |
| Foreign subsidiaries.....                    | \$ 11,799  | \$ 13,  |
| Sales or transfers between geographic areas: |            |         |
| Domestic.....                                | \$ 5,243   | \$ 6,   |
| Income before income taxes:                  |            |         |
| Domestic.....                                | \$ 2,006   | \$ 3,   |
| Foreign subsidiaries.....                    | \$ (537)   | \$      |
| Net Income:                                  |            |         |
| Domestic.....                                | \$ 1,238   | \$ 2,   |
| Foreign subsidiaries.....                    | \$ (325)   | \$      |
| Identifiable assets:                         |            |         |
| Domestic.....                                | \$ 120,715 | \$ 122, |
| Foreign subsidiaries.....                    | \$ 9,809   | \$ 10,  |

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

|  |      |      |
|--|------|------|
|  | 2001 | 2000 |
|  | ---- | ---- |
| Sales for the years ended July 31..... | 21%  | 20   |
| Accounts receivable as of July 31..... | 25%  | 26   |

NOTE 4 - NOTES PAYABLE

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

|  |       |       |
|--|-------|-------|
|  | 2001  | 2000  |
|  | ----- | ----- |
| Town of Blue Mountain, Mississippi   |       |       |
| Principal payable on October 6, 2008. Interest payable monthly at a variable interest rate set weekly based on market conditions for similar instruments |       |       |
| The average rate was 4.00% and 4.12% in fiscal 2001 and 2000, respectively   |       |       |
| Payment of these bonds by the Company is guaranteed by a letter of credit issued by Harris Trust and Savings Bank .....                                  |       | \$    |
| Teachers Insurance and Annuity Association of America  |       |       |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|   |                        |
|---|------------------------|
| Final principal installment payable on November 15, 2002 Interest is payable semiannually at an annual rate of 9.38% .....  |                        |
| Teachers Insurance and Annuity Association of America<br>Payable in annual principal installments on August 15: \$ 500,000 in fiscal 2002; \$1,000,000 in fiscal 2003; and \$2,500,000 in fiscal 2004 and 2005.<br>Interest is payable semiannually at an annual rate of 7.17% .....  |                        |
| Harris Trust and Savings Bank<br>Payable in annual principal installments on June 20: \$650,000 in fiscal 2002; and \$350,000 in fiscal 2003. Interest is payable quarterly at an annual rate of 7.78% .....  |                        |
| Teachers Insurance and Annuity Association of America and Connecticut General Life Insurance Company<br>Payable in annual principal installments on April 15:<br>\$1,500,000 in fiscal 2003, 2004 and 2005; \$3,000,000 in fiscal 2006;<br>\$4,000,000 in fiscal 2007 and 2008; \$1,500,000 in fiscal 2009; \$3,000,000 in fiscal 2010; \$2,000,000 in fiscal 2011; and \$1,500,000 in fiscal 2012 and 2013 Interest is payable semiannually at an annual rate of 6.55% ..... | 2                      |
| Harris Trust and Savings Bank Credit Agreement .....  |                        |
| Other .....   |                        |
|   | -----<br>\$ 3          |
| Less current maturities of notes payable .....  | (                      |
|   | -----<br>\$ 3<br>===== |

On January 29, 1999, the Company entered into a Credit Agreement with Harris Trust and Savings Bank which provides for up to \$15,000,000 in committed unsecured revolving credit loans and/or letters of credit (not to exceed \$5,000,000). This agreement terminates on January 29, 2004, or such earlier date as provided for in the agreement. Additionally, the Company decreased its uncommitted line of credit agreement, which is renewable on an annual basis, with Harris Trust and Savings Bank to \$15,000,000 in fiscal 1999. Outstanding borrowings against this or prior lines were \$0 and \$3,020,000 at July 31, 2001 and 2000, respectively.

NOTE 4 - NOTES PAYABLE (CONTINUED)

In January 2001, the note agreement of the \$25,000,000 private debt placement was amended to modify the fixed charges ratio covenant contained therein from the original ratio of 1.5 to 1.0 to new ratios as follows: (i) for the period ending November 1, 2000 through April 30, 2001 to 1.00 to 1.00; (ii) for the period ending May 1, 2001 through October 31, 2001 to 1.15 to 1.00; (iii) for the period ending November 1, 2001 through July 31, 2002 to 1.25 to

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

1.00; (iv) and for the period ending August 1, 2002 and thereafter to 1.50 to 1.00. Additionally, prior note agreements dated as of April 15, 1993 and April 15, 1991 with Teachers Insurance and Annuity Association have also been amended to add a fixed charges coverage ratio covenant at substantially the same terms as those in the note agreement dated as of April 15, 1998 as amended.

The agreements with the Town of Blue Mountain, Mississippi, Teachers Insurance and Annuity Association of America, Harris Trust and Savings Bank and Connecticut General Life Insurance Company impose working capital requirements, dividend and financing limitations, minimum tangible net worth requirements and other restrictions. The Company's new Credit Agreement with Harris Trust and Savings Bank indirectly restricts dividends by requiring the Company to maintain tangible net worth, as defined, in the amount of \$50,000,000 plus 40% of cumulative annual earnings from July 31, 1998.

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

The following is a schedule by year of future maturities of notes payable as of July 31, 2001:

|                  |
|------------------|
| 2003.....        |
| 2004.....        |
| 2005.....        |
| 2006.....        |
| Later years..... |

NOTE 5 - INCOME TAXES

The provision for income tax expense consists of the following:

|         | 2001           | 2000  | 1999  |
|---------|----------------|-------|-------|
|         | -----          | ----- | ----- |
|         | (IN THOUSANDS) |       |       |
| Current |                |       |       |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|                                   |        |            |          |
|-----------------------------------|--------|------------|----------|
| Federal .....                     | \$ 586 | \$ (1,450) | \$ 1,324 |
| Foreign .....                     | (212)  | 11         | 182      |
| State .....                       | 74     | (409)      | 702      |
|                                   | -----  | -----      | -----    |
|                                   | 448    | (1,848)    | 2,208    |
|                                   | -----  | -----      | -----    |
| Deferred                          |        |            |          |
| Federal .....                     | 65     | 1,046      | 649      |
| Operating loss carryforward ..... | --     | 1,371      | 91       |
| Foreign .....                     | --     | --         | 1        |
| State .....                       | 43     | 252        | (89)     |
|                                   | -----  | -----      | -----    |
|                                   | 108    | 2,669      | 652      |
|                                   | -----  | -----      | -----    |
| Total Income Tax Provision .....  | \$ 556 | \$ 821     | \$ 2,860 |
|                                   | =====  | =====      | =====    |

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

|   | 2001   | 2000  |
|---|--------|-------|
|   | -----  | ----- |
| U.S. federal statutory income tax rate .....                                      | 34.0%  | 34.0% |
| Depletion deductions allowed for mining .....                                     | (13.0) | (5.0) |
| State income tax expense/(benefit), net of federal<br>tax (benefit)/expense ..... | 5.3    | (3.4) |
| Valuation allowance without income tax benefit .....                              | --     | (3.3) |
| Difference in effective tax rate of foreign subsidiaries ...                      | (0.2)  | (0.1) |
| Alternative minimum and foreign tax credits .....                                 | 5.4    | 3.8   |
| Other .....   | 6.4    | 0.9   |
|   | -----  | ----- |
|   | 37.9%  | 26.9% |
|   | =====  | ===== |

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

|                                     | 2001           |             | 2000   |             |
|-------------------------------------|----------------|-------------|--------|-------------|
|                                     | ASSETS         | LIABILITIES | ASSETS | LIABILITIES |
|                                     | -----          | -----       | -----  | -----       |
|                                     | (IN THOUSANDS) |             |        |             |
| Depreciation .....                  | \$ --          | \$ 810      | \$ --  | \$ 1,000    |
| Deferred compensation .....         | 1,075          | --          | 1,207  | --          |
| Postretirement benefits .....       | 560            | --          | 548    | --          |
| Allowance for doubtful accounts ... | 721            | --          | 324    | --          |
| Other assets .....                  | 791            | --          | 293    | --          |
| Accrued expenses .....              | 421            | --          | 255    | --          |
| Tax credits .....                   | 397            | --          | 635    | --          |
| Other .....                         | --             | --          | --     | 259         |



## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|                                   |          |        |          |          |
|-----------------------------------|----------|--------|----------|----------|
| Operating loss carryforward ..... | --       | --     | 1,125    | --       |
|                                   | 3,965    | 810    | 4,387    | 1,259    |
| Valuation allowance .....         | --       | --     | (522)    | --       |
|                                   | 3,965    | 810    | 3,865    | 1,259    |
| Total deferred taxes .....        | \$ 3,965 | \$ 810 | \$ 3,865 | \$ 1,259 |
|                                   | \$ 3,965 | \$ 810 | \$ 3,865 | \$ 1,259 |

As of July 31, 2001, for federal income tax purposes there were alternative minimum tax credit carryforwards of approximately \$397,000. Due to the higher levels of taxable income at the parent company level in the current year, the

36

### NOTE 5 - INCOME TAXES (CONTINUED)

Company was able to utilize foreign tax credit of \$522,000 and net operating loss carryforwards of approximately \$2,899,000. The net decrease in the valuation allowance of \$522,000 is due to the utilization of the foreign tax credit and net operating loss carryforwards that were partially reserved for in the prior year.

### NOTE 6 - STOCKHOLDERS' EQUITY

The authorized capital stock of the Company at July 31, 2001 and 2000 consisted of 15,000,000 shares of Common Stock, 7,000,000 shares of Class B Stock and 30,000,000 shares of Class A Common Stock, each with a par value of \$.10 per share. There are no Class A shares currently outstanding.

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

Common Stock is entitled to cash dividends, as and when declared or paid, equal to 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.

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

The Special Stock Dividend, which can be issued only once, is either a dividend of one share of Class A Common Stock for each share of Common Stock and Class B Stock outstanding or a recapitalization, in which half of each outstanding share of Common Stock and Class B Stock would be converted into a half share of Class A Common Stock.

In December 1999, the Board of Directors of the Company authorized the repurchase, from time to time, of up to 350,000 additional shares of the Company's stock. This authorization, in addition to previous authorizations, totals 1,916,771 shares. As of July 31, 2001, 1,279,110 shares of Common Stock and 342,241 shares of Class B stock have been repurchased under these authorizations.

The number of holders of record of Common Stock and Class B stock on July 31, 2001 was 975 and 33, respectively, as reported by the Company's transfer agent. The Company's Common Stock is traded on the New York Stock Exchange. There is no established trading market for the Class B Stock.

37

### NOTE 7 - STOCK OPTION PLANS

The Company instituted the Oil-Dri Corporation of America 1995 Long Term Incentive Plan during the fiscal year ended July 31, 1996. On December 9, 1997, the stockholders voted to increase the number of shares available for grant under the 1995 Plan from 500,000 to 1,000,000 and further authorized the grant of Class B Shares under the Plan to certain members of the Richard M. Jaffee family. Generally, other than grants to Richard M. Jaffee family members, shares of stock awarded under the 1995 Plan will be Class A Common Stock, except that, if there is no Class A Common Stock issued and publicly traded on a securities exchange when such awards are exercised, the shares awarded would be Common Stock. On December 7, 1999, the stockholders voted to increase the number of shares available for grant under the 1995 Plan from 1,000,000 to 1,500,000. On June 9, 2000 the 1995 Plan was amended to provide 100% vesting and a three year exercise period upon the death or disability of a grantee or upon a grantee's retirement with age plus years of service equal to at least 80. The Plan provides for various other types of awards. Awards of restricted stock in the amount of 5,000 and 2,500 shares were made during the fiscal years ended July 31, 2001 and 2000, respectively. On September 18, 1998, 840,125 shares which had been issued in prior fiscal years under the 1995 Plan at an average price of \$14.83 were reissued at an exercise price of \$11.25. The reissued options awarded to members of the Richard M. Jaffee family covered Class B shares. A new vesting period applied to all the reissued options. All grants awarded under this plan have to date an initial term of ten years and vest and become exercisable gradually over five years.

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

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

respective terms. As of July 31, 2001, all options outstanding are vested and exercisable.

The Company instituted the Oil-Dri Corporation of America Outside Director's Stock Plan on June 9, 1998. All shares of stock issued under this plan will be shares of Common Stock issued from Treasury Stock. The Plan provides for stock option grants and various other types of awards. Grants awarded under this plan to date have initial terms of ten years and a vesting period of one year.

A summary of option transactions under the plans follows:

|                                       | NUMBER OF<br>SHARES<br>(IN THOUSANDS) |    | WEIGHTED<br>AVERAGE<br>EXERCISE PRICE |
|---------------------------------------|---------------------------------------|----|---------------------------------------|
|                                       | -----                                 |    | -----                                 |
| Options outstanding at August 1, 1998 | 1,137                                 | \$ | 15.42                                 |
| Granted                               | 882                                   | \$ | 11.29                                 |
| Exercised                             | --                                    |    | --                                    |
| Canceled                              | 81                                    | \$ | 14.73                                 |
| Canceled/Reissued                     | 840                                   | \$ | 14.83                                 |
|                                       | -----                                 |    | -----                                 |
| Options outstanding at August 1, 1999 | 1,098                                 | \$ | 12.61                                 |
| Granted                               | 177                                   | \$ | 12.50                                 |
| Exercised                             | --                                    |    | --                                    |
| Canceled                              | 280                                   | \$ | 12.40                                 |
|                                       | -----                                 |    | -----                                 |
| Options outstanding at August 1, 2000 | 995                                   | \$ | 12.65                                 |
| Granted                               | 258                                   | \$ | 9.02                                  |
| Exercised                             | --                                    |    | --                                    |
| Canceled                              | 116                                   | \$ | 13.48                                 |
|                                       | -----                                 |    | -----                                 |
| OPTIONS OUTSTANDING AT AUGUST 1, 2001 | 1,137                                 | \$ | 11.74                                 |
|                                       | =====                                 |    | =====                                 |

Options exercisable were 336,325, 189,500 and 204,537 as of July 31, 2001, 2000 and 1999, respectively. The weighted average exercise price of the options exercisable as of July 31, 2001, 2000 and 1999 was \$14.10, \$17.33 and \$17.49, respectively.

The Company had reserved 587,250, 684,750 and 109,438 shares, respectively, as of July 31, 2001, 2000 and 1999 under the Oil-Dri Corporation of America 1995 Long Term Incentive Plan.

The Company had reserved 40,000, 120,000 and 130,000 shares of Common Stock, respectively, as of July 31, 2001, 2000 and 1999, under the Oil-Dri Corporation of America Outside Director's Stock Plan.

NOTE 7 - STOCK OPTION PLANS (CONTINUED)

OPTIONS OUTSTANDING AND EXERCISABLE  
BY PRICE RANGE AS OF 7/31/2001

| Options Outstanding         |  |   |                                       |                     |
|-----------------------------|--|---|---------------------------------------|---------------------|
| Range of Exercise<br>Prices | Outstanding as<br>of 7/31/2001<br>(in thousands) | Weighted Average<br>Remaining<br>Contractual Life | Weighted<br>Average<br>Exercise Price | Shares<br>(in thou) |
| \$6.01 - \$8.00             | 90   | 9.3   | \$ 8.00                               |                     |
| \$8.01 - \$10.00            | 210  | 8.7   | \$ 9.23                               |                     |
| \$10.01 - \$12.00           | 569  | 6.8   | \$ 11.25                              |                     |
| \$14.01 - \$16.00           | 189  | 7.1   | \$ 14.67                              |                     |
| \$18.01 - \$20.00           | 79   | 3.1   | \$ 19.27                              |                     |
| <b>\$6.01 - \$20.00</b>     | <b>1,137</b>                                     | <b>7.2</b>  | <b>\$ 11.74</b>                       |                     |

The Company has elected to continue to account for stock-based compensation using the intrinsic value method under APB Opinion No. 25. Consequently, no compensation expense has been recognized for stock options. If compensation expense for the Company's stock options issued in the fiscal years ended July 31, 2001, 2000 and 1999 had been determined based on the fair value method of accounting, as defined in SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

|                                  | 2001   | 2000     | 1999     |
|----------------------------------|--|----------|----------|
|                                  | (IN THOUSANDS<br>EXCEPT FOR PER SHARE AMOUNTS) |          |          |
| Net income as reported .....     | \$ 913   | \$ 2,227 | \$ 7,176 |
| Pro forma .....                  | \$ 235   | \$ 1,651 | \$ 6,515 |
| Net income per share as reported |  |          |          |
| Basic .....                      | \$ 0.16  | \$ 0.39  | \$ 1.23  |
| Dilutive .....                   | \$ 0.16  | \$ 0.39  | \$ 1.20  |
| Pro forma                        |  |          |          |
| Basic .....                      | \$ 0.04  | \$ 0.29  | \$ 1.12  |
| Dilutive .....                   | \$ 0.04  | \$ 0.29  | \$ 1.09  |

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

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|                               | 2001<br>----- | 2000<br>----- | 1999<br>----- |
|-------------------------------|---------------|---------------|---------------|
| Dividend Yields .....         | 4.2%          | 3.1%          | 2.8%          |
| Volatility .....              | 37.2%         | 30.9%         | 25.8%         |
| Risk-free Interest Rate ..... | 5.8%          | 6.1%          | 5.9%          |
| Expected Life (Years) .....   | 5.4           | 5.4           | 5.4           |

The weighted average fair value of the options granted, including the effect of repricing in fiscal year 1999, was \$2.45, \$3.66 and \$1.42 for the fiscal years ended July 31, 2001, 2000 and 1999, respectively.

39

NOTE 8 - EMPLOYEE BENEFIT PLANS

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

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

|  | 2001<br>----- | 2000<br>-----  |       |
|--|---------------|----------------|-------|
|  |               | (IN THOUSANDS) |       |
| Service cost .....                                   | \$ 424        | \$ 499         | \$    |
| Interest cost on projected benefit obligations ..... | 682           | 642            |       |
| Expected return on plan assets .....                 | (977)         | (904)          |       |
| Net amortization and deferral .....                  | (122)         | (105)          |       |
|  | -----         | -----          | ----- |
| Net pension cost .....                               | \$ 7          | \$ 132         | \$    |
|  | =====         | =====          | ===== |

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

2001

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|   |       |      |
|---|-------|------|
|   | ----- | (IN  |
| Fair Value of Plan Assets (Less) Greater Than Projected Benefit Obligations ..... | \$    | (4   |
| Unrecognized Net Gain .....   |       | (9   |
| Unrecognized Prior Service Cost .....   |       | 5    |
| Unrecognized Net Liability (Asset) at Transition .....                            |       | (1   |
|   | ----- |      |
| Accrued Pension Included in Noncurrent Liabilities--Other .....                   | \$    | (1,0 |
|   | ===== |      |

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

|  | 2001           | 2000      |
|--|----------------|-----------|
|  | -----          | -----     |
|  | (IN THOUSANDS) |           |
| Change in Plan Assets:                             |                |           |
| Plan assets at fair value, beginning of year ..... | \$ 11,040      | \$ 10,059 |
| Actual return on plan assets .....                 | (473)          | 852       |
| Contributions .....                                | --             | 387       |
| Benefits paid .....                                | (366)          | (258)     |
|  | -----          | -----     |
| Plan assets at fair value, end of year .....       | \$ 10,201      | \$ 11,040 |
|  | =====          | =====     |
| Change in Projected Benefit Obligation:            |                |           |
| Projected benefit obligation, beginning of year .. | \$ 8,700       | \$ 8,370  |
| Service cost .....                                 | 424            | 499       |
| Interest cost .....                                | 681            | 642       |
| Change in discount rate .....                      | 1,080          | (368)     |
| Other assumption changes .....                     | --             | (259)     |
| Plan amendments .....                              | 39             | --        |
| Actuarial loss .....                               | 78             | 74        |
| Benefits paid .....                                | (366)          | (258)     |
|  | -----          | -----     |
| Projected benefit obligation, end of year .....    | \$ 10,636      | \$ 8,700  |
|  | =====          | =====     |

NOTE 8 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Assumptions used in the previous calculations are as follows:

|   |      |
|---|------|
| Discount rate .....   | 7.3% |
| Rate of increase in compensation levels for net pension costs .....           | 4.5% |
| Rate of increase in compensation levels for projected benefit obligations ... | 4.5% |
| Long-term expected rate of return on assets .....                             | 9.0% |

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

For the years ended July 31, 2001, 2000 and 1999, the Company maintained a 401(k) savings plan under which the Company matches a portion of employee contributions. The plan is available to essentially all domestic employees at the beginning of the month following thirty or sixty days of employment. During the period May 1, 1998 through July 31, 1999, domestic employees were eligible to participate at the beginning of the fiscal quarter following thirty or sixty days of employment. Prior to May 1, 1998, domestic employees were eligible to participate after one year of service and the attainment of age 21. The Company's contributions to this plan, and to similar plans maintained by the Company's foreign subsidiaries, were \$445,000, \$489,000 and \$449,000 for fiscal years 2001, 2000 and 1999, respectively.

NOTE 9 - DEFERRED COMPENSATION

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

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

NOTE 11 - LEASES

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

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

against the per ton royalty when the property is mined.

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

NOTE 11 - LEASES (CONTINUED)

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

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, 2001:

|                  |       |
|------------------|-------|
| 2002.....        | ..... |
| 2003.....        | ..... |
| 2004.....        | ..... |
| 2005.....        | ..... |
| 2006.....        | ..... |
| Later years..... | ..... |

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:

|                               | 2001   | 2000   |
|-------------------------------|--------|--------|
|                               | -----  | -----  |
| Transportation equipment..... | \$ 941 | \$ 941 |
| Office facilities.....        | 485    | 485    |



Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

|                           |          |
|---------------------------|----------|
| Warehouse facilities..... | 408      |
| Mining properties         |          |
| Minimum.....              | 192      |
| Contingent.....           | 430      |
| Other.....                | 646      |
|                           | -----    |
|                           | \$ 3,102 |
|                           | =====    |

NOTE 12 - OTHER CASH FLOW INFORMATION

Cash payments (refunds) for interest and income taxes were as follows:

|                   |    |       |     |
|-------------------|----|-------|-----|
|                   |    | 2001  |     |
|                   |    | ----- | (IN |
| Interest.....     | \$ | 2,619 | \$  |
|                   |    | ===== |     |
| Income Taxes..... | \$ | (743) | \$  |
|                   |    | ===== |     |

42

NOTE 13 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected information for 2001 and 2000 is as follows:

|                                   |    |                                 |            |           |
|-----------------------------------|----|---------------------------------|------------|-----------|
|                                   |    | FISCAL 2001 QUARTER             |            |           |
|                                   |    | OCTOBER 31                      | JANUARY 31 | APRIL 30  |
|                                   |    | -----                           | -----      | -----     |
|                                   |    | (IN THOUSANDS EXCEPT PER SHARE) |            |           |
| Net Sales.....                    | \$ | 42,531                          | \$ 45,544  | \$ 41,274 |
| Gross Profit.....                 | \$ | 10,819                          | \$ 10,281  | \$ 9,194  |
| Net Income.....                   | \$ | 433                             | \$ (261)   | \$ 1,906  |
| Net Income Per Share              |    |                                 |            |           |
| Basic.....                        | \$ | 0.08                            | \$ (0.05)  | \$ 0.34   |
| Dilutive.....                     | \$ | 0.08                            | \$ (0.05)  | \$ 0.34   |
| Dividends Per Share               |    |                                 |            |           |
| Common.....                       | \$ | 0.09                            | \$ 0.09    | \$ 0.09   |
| Class B.....                      | \$ | 0.07                            | \$ 0.07    | \$ 0.07   |
| Company Common Stock Price Range: |    |                                 |            |           |
| High.....                         | \$ | 10.00                           | \$ 9.50    | \$ 9.20   |
| Low.....                          | \$ | 6.50                            | \$ 6.44    | \$ 6.92   |

|                                   | FISCAL 2000 QUARTER END         |            |           |
|-----------------------------------|---------------------------------|------------|-----------|
|                                   | OCTOBER 31                      | JANUARY 31 | APRIL 30  |
|                                   | (IN THOUSANDS EXCEPT PER SHARE) |            |           |
| Net Sales.....                    | \$ 43,552                       | \$ 45,205  | \$ 41,846 |
| Gross Profit.....                 | \$ 12,583                       | \$ 11,409  | \$ 11,303 |
| Net Income.....                   | \$ 1,479                        | \$ (599)   | \$ 560    |
| Net Income Per Share              |                                 |            |           |
| Basic.....                        | \$ 0.26                         | \$ (0.11)  | \$ 0.10   |
| Dilutive.....                     | \$ 0.25                         | \$ (0.10)  | \$ 0.10   |
| Dividends Per Share               |                                 |            |           |
| Common.....                       | \$ 0.09                         | \$ 0.09    | \$ 0.09   |
| Class B.....                      | \$ 0.07                         | \$ 0.07    | \$ 0.07   |
| Company Common Stock Price Range: |                                 |            |           |
| High.....                         | \$ 16.13                        | \$ 15.63   | \$ 12.81  |
| Low.....                          | \$ 9.75                         | \$ 11.75   | \$ 6.88   |

43

## INDEPENDENT AUDITOR'S REPORT

STOCKHOLDERS AND BOARD OF DIRECTORS  
Oil-Dri Corporation of America

We have audited the consolidated balance sheets of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2001. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in Item 14(a). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

BLACKMAN KALLICK BARTELSTEIN, LLP

Chicago, Illinois

September 10, 2001

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

44

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is (except for information set forth below concerning the Board of Directors and information in Part I, hereof, concerning executive officers) contained in the Registrant's Proxy Statement for its 2001 Annual Meeting of stockholders ("Proxy Statement") under the caption "1. Election of Directors" and is incorporated herein by this reference.

#### BOARD OF DIRECTORS

Richard M. Jaffee  
Chairman

Daniel S. Jaffee  
President and Chief Executive Officer

J. Steven Cole(1)  
President, Cole & Associates,  
Chairman, Sav-A-Life Systems, Inc.

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

Ronald B. Gordon  
Chief Executive Officer, Beiersdorf North America

Thomas D. Kuczmariski  
Senior Partner and President  
Kuczmariski & Associates, I

Joseph C. Miller  
Vice-Chairman

Paul J. Miller  
Partner, Sonnenschein Nath &

Allan H. Selig(2)  
President and Chairman, Seli  
Commissioner of Major Leag

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

- (1) Audit Committee Chair
- (2) Compensation Committee Chair

### ITEM 11. EXECUTIVE COMPENSATION

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

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

45

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

Consolidated Balance Sheets as of July 31, 2001 and July 31, 2000.

Consolidated Statements of Income for the fiscal years ended July 31, 2001, July 31, 2000 and July 31, 1999.

Consolidated Statements of Stockholders' Equity for the fiscal years ended July 31, 2001, July 31, 2000 and July 31, 1999.

Consolidated Statements of Cash Flows for the fiscal years ended July 31, 2001, July 31, 2000 and July 31, 1999.

Notes to Consolidated Financial Statements.

Independent Auditor's Report.

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

Schedule to Financial Statements, as follows:

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Schedule II--Valuation and Qualifying Accounts, years ended July 31, 2001, 2000 and 1999.

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

- (3) (a) (1) Articles of Incorporation of the Registrant, as amended.
- (3) (b) (2) Bylaws of the Registrant, as amended June 16, 1995.
- (10) (c) (1) (3) Agreement ("Clorox Agreement") dated January 12, 1981 between The Clorox Company and the Registrant, as amended. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (2) (4) Amendment to Clorox Agreement dated March 3, 1989, as accepted by the Registrant on March 20, 1989, between The Clorox Company and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (3) (5) Amendment to Clorox Agreement dated February 14, 1991, between The Clorox Company and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (4) (6) Memorandum of Agreement #1450 "Fresh Step" (TM), dated as of March 12, 2001 between A&M Products Manufacturing Company and Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (c) (5) (7) Memorandum of Agreement #1465 "Johnny Cat" (TM), dated as of April 18, 2001 between A&M Products Manufacturing Company and Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)
- (10) (d) (8) Description of 1987 Executive Deferred Compensation Program.\*
- (10) (e) (1) (9) Salary Continuation Agreement dated August 1, 1989 between Richard M. Jaffee and the Registrant ("1989 Agreement").\*
- (10) (e) (2) (10) Extension and Amendment, dated October 9, 1998, to the 1989 Agreement.\*
- (10) (e) (3) (11) Second Amendment, Effective October 31, 2000, to the 1989 Agreement.\*
- (10) (f) (12) 1988 Stock Option Plan.\*
- (10) (g) (13) Note Agreement, dated April 5, 1991, between the Registrant and Teacher's Insurance and Annuity Association of America regarding \$8,000,000 9.38% Senior Notes due November 15, 2001.
- (10) (h) (14) Note Agreement, dated as of April 15, 1993, between the

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Registrant and Teacher's Insurance and Annuity Association of America regarding \$6,500,000 7.17% Senior Notes due August 15, 2004.

- (10) (i) (15) Credit Agreement, dated as of September 21, 1994, between the Registrant and Harris Trust and Savings Bank regarding \$5,000,000 7.78% Term Loan Note and \$5,000,000 Revolving Credit Note.
- (10) (j) The Oil-Dri Corporation of America Deferred Compensation Plan adopted November 15, 1995, as amended and restated effective October 1, 2000.\*
- (10) (k) The Oil-Dri Corporation of America 1995 Long Term Incentive Plan as amended and restated effective June 9, 2000.\*
- (10) (l) (16) \$10,000,000 unsecured line of credit agreement dated as of July 25, 1996 between the Registrant and Harris Trust and Savings Bank.
- (10) (m) (17) \$25,000,000 Note Purchase Agreement dated as of April 15, 1998 between the Registrant and Teachers Insurance and Annuity Association of America and Cigna Investments, Inc.
- (10) (n) The Oil-Dri Corporation of America Outside Director Stock Plan as amended and restated effective October 16, 1999.\*
- (10) (o) (18) \$15,000,000 unsecured line of credit agreement dated January 29, 1999 between the Company and Harris Trust and Savings Bank.
- (10) (p) (19) \$15,000,000 unsecured, uncommitted line of credit agreement dated January 29, 1999 between the Company and Harris Trust and Savings Bank.
- (10) (q) (20) Split Dollar Life Insurance Agreements dated February 26, 1999.\*
- (10) (r) (21) Agreement ("Church & Dwight Agreement") dated May 19, 1999 between Church & Dwight Co., Inc. and the Registrant. (Confidential treatment of certain portions of this Exhibit has been granted.)

(b) Reports on Form 8-K.

Reports on Form 8-K were filed by the Registrant on November 13, 2000 and May 1, 2001, reporting on Item 5., other events.

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

## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

- 
- \* Management contract or compensatory plan or arrangement.
  - 1 Incorporated by reference to Exhibit (4.1) to the Registrant's Registration Statement on Form S-8 (Registration No. 333-57625), made effective on June 24, 1998.
  - 2 Incorporated by reference to Exhibit (3)(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1995.
  - 3 Incorporated by reference to Exhibit (10)(f) to the Registrant's Registration Statement on Form S-2 (Registration No. 2-97248) made effective on May 29, 1985.
  - 4 Incorporated by reference to Exhibit (10)(e)(2) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1989.
  - 5 Incorporated by reference to Exhibit (10)(e)(3) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1991.
  - 6 Incorporated by reference to Exhibit 10(s) to Registrant's Current Report on Form 8-K dated May 1, 2001.
  - 7 Incorporated by reference to Exhibit 10(t) to Registrant's Current Report on Form 8-K dated May 1, 2001.
  - 8 Incorporated by reference to Exhibit (10)(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1988.
  - 9 Incorporated by reference to Exhibit (10)(g) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1989.
  - 10 Incorporated by reference to Exhibit (10)(n) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1998.
  - 11 Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated November 13, 2000.
  - 12 Incorporated by reference to Exhibit (4)(a) to the Registrant's Registration Statement on Form S-8 (Registration No. 33-29650), made effective on June 30, 1989.
  - 13 Incorporated by reference to Exhibit (10)(h) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1991.
  - 14 Incorporated by reference to Exhibit (10)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993.
  - 15 Incorporated by reference to Exhibit (10)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1994.
  - 16 Incorporated by reference to Exhibit (10)(l) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1996.
  - 17 Incorporated by reference to Exhibit (10)(m) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1998.
  - 18 Incorporated by reference to Exhibit (10)(o) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.
  - 19 Incorporated by reference to Exhibit (10)(p) to the Registrant's

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.

48

- 20 Incorporated by reference to Exhibit (10) (q) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1999.
- 21 Incorporated by reference to Exhibit (10) (r) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1999.

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

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

49

SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA  
(Registrant)

By /s/ DANIEL S. JAFFEE

-----  
Daniel S. Jaffee,  
President and Chief Executive Officer,  
Director

Dated: October 12, 2001

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

/s/

RICHARD M. JAFFEE

October 12, 2001

-----  
Richard M. Jaffee



## Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

Chairman of the Board of Directors

|       |   |                  |
|-------|---|------------------|
| /s/   | JEFFREY M. LIBERT   | October 12, 2001 |
| ----- |   |                  |
|       | Jeffrey M. Libert<br>Vice President<br>Chief Financial Officer<br>Principal Financial Officer |                  |
| /s/   | DANIEL T. SMITH   | October 12, 2001 |
| ----- |   |                  |
|       | Daniel T. Smith<br>Corporate Controller<br>Principal Accounting Officer                       |                  |
| /s/   | J. STEVEN COLE  | October 12, 2001 |
| ----- |   |                  |
|       | J. Steven Cole<br>Director  |                  |
| /s/   | ARNOLD W. DONALD  | October 12, 2001 |
| ----- |   |                  |
|       | Arnold W. Donald<br>Director  |                  |
| /s/   | RONALD B. GORDON  | October 12, 2001 |
| ----- |   |                  |
|       | Ronald B. Gordon<br>Director  |                  |
| /s/   | THOMAS D. KUCZMARSKI  | October 12, 2001 |
| ----- |   |                  |
|       | Thomas D. Kuczmariski<br>Director   |                  |

50

|       |                              |                  |
|-------|------------------------------|------------------|
| /s/   | JOSEPH C. MILLER             | October 12, 2001 |
| ----- |                              |                  |
|       | Joseph C. Miller<br>Director |                  |
| /s/   | PAUL J. MILLER               | October 12, 2001 |
| ----- |                              |                  |
|       | Paul J. Miller<br>Director   |                  |
| /s/   | ALLAN H. SELIG               | October 12, 2001 |
| ----- |                              |                  |
|       | Allan H. Selig<br>Director   |                  |

SCHEDULE II

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

|                                     | YEAR ENDED JULY 31 |                |       |
|-------------------------------------|--------------------|----------------|-------|
|                                     | 2001               | 2000           |       |
|                                     | -----              | -----          | ----- |
|                                     |                    | (IN THOUSANDS) |       |
| Allowance for doubtful accounts:    |                    |                |       |
| Beginning balance .....             | \$ 836             | \$ 358         | \$    |
| Additions charged to expense .....  | 1,045              | 523            |       |
| Deductions* .....                   | 23                 | 45             |       |
|                                     | -----              | -----          | ----- |
| Balance at end of year .....        | \$ 1,858           | \$ 836         | \$    |
|                                     | =====              | =====          | ===== |
| <br>                                |                    |                |       |
| * Net of recoveries.                |                    |                |       |
| <br>                                |                    |                |       |
| Inventory obsolescence reserve:     |                    |                |       |
| Beginning balance .....             | \$ 256             | \$ 358         | \$    |
| Additions charged to expense .....  | 100                | --             |       |
| Deductions .....                    | --                 | 102            |       |
|                                     | -----              | -----          | ----- |
| Balance at end of year .....        | \$ 356             | \$ 256         | \$    |
|                                     | =====              | =====          | ===== |
| <br>                                |                    |                |       |
| Valuation reserve for income taxes: |                    |                |       |
| Beginning balance .....             | \$ 522             | \$ 1,742       | \$    |
| Additions charged to expense .....  | --                 | 522            |       |
| Deductions .....                    | 522                | 1,742          |       |
|                                     | -----              | -----          | ----- |
| Balance at end of year .....        | \$ --              | \$ 522         | \$    |
|                                     | =====              | =====          | ===== |

Edgar Filing: OIL DRI CORPORATION OF AMERICA - Form 10-K405

EXHIBIT INDEX

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION<br>-----                         |
|----------------------------|--|
| (11)                       | Computation of Net Income Per Share          |
| (21)                       | Subsidiaries of the Registrant               |
| (23)                       | Consent of Blackman Kallick Bartelstein, LLP |

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