

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, 1997 Commission File No. 0-8675

OIL-DRI CORPORATION OF AMERICA

-----  
(Exact name of registrant as specified in its Charter)

Delaware

36-2048898

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer identifi-  
cation no.)

410 North Michigan Avenue  
Chicago, Illinois

60611

-----  
(Address of principal executive  
offices)

-----  
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
----- Common Stock, par value \$.10 per share	----- New York Stock Exchange

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

None  
-----  
(Title of Class)

Number of Shares of each class of Registrant's common stock outstanding as of  
September 30, 1997:

Common Stock - 5,417,130 shares (including 964,552 treasury shares)  
Class B Stock - 1,818,388 shares  
Class A Common Stock - 0 shares

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

Yes  No   
-----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of 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. [X]

Aggregate market value of Registrant's Common Stock owned by non-affiliates -  
\$65,213,965 (based on the closing price on September 30, 1997).

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

1. Registrant's Proxy Statement for its 1997 Annual Meeting of Stockholders ("Proxy Statement"), which will be filed with the Securities and Exchange Commission not later than November 28, 1997 (120 days after the end of Registrant's fiscal year ended July 31, 1997), is incorporated into Part III of this Annual Report on Form 10-K, as indicated herein.
2. The following portions of Registrant's 1997 Annual Report to Stockholders ("Annual Report"), which is an exhibit to this Annual Report on Form 10-K, are incorporated into Parts I, II and IV of this Annual Report on Form 10-K, as indicated herein (page numbers refer to the Annual Report):
  - a) Common Stock on page 34.
  - b) Five-Year Summary of Financial Data on page 13.
  - c) Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 14 to 17.
  - d) Consolidated Statements of Income on page 20.
  - e) Consolidated Statements of Stockholders' Equity on page 21.
  - f) Consolidated Balance Sheets on pages 18 and 19.
  - g) Consolidated Statements of Cash Flows on page 22.
  - h) Notes to Consolidated Financial Statements on pages 23 to 33.
  - i) Independent Auditor's Report on page 34.
  - j) Selected Quarterly Financial Data on page 33.
  - k) Financial Highlights, including Sales Trends, on page 1.

## 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, industrial, environmental, agricultural and fluids purification 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. Industrial and environmental 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. Agricultural products, which include carriers for crop protection chemicals and fertilizers, drying agents, soil conditioners, pellet binders for animal feeds and flowability aids, are sold to manufacturers of agricultural chemicals and distributors of other agricultural products. Fluids purification products, consisting primarily of bleaching, filtration and clarification clays, are sold to processors and refiners of edible and petroleum-based oils.

The Registrant's sorbent technologies include absorbent and adsorbent products. Absorbents, like sponges, draw liquids up into their many pores. Examples of Oil-Dri's absorbent products are CAT'S PRIDE(R) Premium Cat Litter and other cat litters, OIL-DRI ALL PURPOSE(R) clay floor absorbent 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 and environmental 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 value-added and branded products for consumer, industrial and environmental, agricultural and fluids purification uses, where the Registrant's marketing 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. The Registrant's transportation subsidiary ships Oil-Dri products and the products of its customers and other third parties.

Certain financial information about Registrant's foreign and domestic operations is contained in Note 2 of Notes to Consolidated Financial Statements on page 25 of the Annual Report and is incorporated herein by reference. Certain financial information on revenues from classes of similar products and services is contained in Sales Trends on page 1 of the Annual Report to Stockholders and 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(TM) brand names, FRESH STEP(R) and CONTROL(R) brands manufactured for The Clorox Company and private label cat litters manufactured for mass merchandisers, wholesale clubs, drug chains, pet superstores and retail grocery stores. The registrant also packages and markets Cat's Pride(R) Kat Kit(TM) which contains cat litter in a disposable tray. These products are sold through independent food brokers and the Registrant's representatives to major grocery outlets such as Albertsons, Publix, Winn Dixie, and others. LASTING PRIDE is principally sold to mass merchandisers such as Wal-Mart and K-Mart.

The Registrant and The Clorox Company have long-term arrangements under which they developed FRESH STEP(R) and CONTROL(R) premium-priced cat litter products. FRESH STEP(R) and CONTROL(R) brands, which are owned, trademarked and marketed by The Clorox Company, both utilize the Registrant's special low density, highly absorbent clay mineral. FRESH STEP(R) contains microencapsulated odor controllers which are activated by the cat. The Registrant has a long-term exclusive right to supply The Clorox Company's requirements for FRESH STEP(R) and CONTROL(R) up to certain levels. According to independently published supermarket industry reports, FRESH STEP(R) Scoopable was the largest dollar grossing branded cat litter sold through grocery chains in the United States during the year ended July 13, 1997.

Traditional coarse granular clay litters once represented approximately 98% of the market. Beginning in 1990, the cat litter market changed and traditional coarse litters are now complemented by new, fine granule clumping (scoopable) products. These clumping products have the characteristic of binding together and expanding when moisture is introduced. The Registrant's clumping cat litter is based on naturally occurring organic ingredients which are biodegradable. On an industry-wide basis, clumping cat litters have assumed market shares in excess of 46% of retail dollar sales volume in the grocery industry and 57% of retail dollar sales volume in the mass merchandiser industry in the 52 week period ended July 13, 1997, compared with 42% and 56%, respectively, in a similar period last year.

## Industrial and Environmental Products

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

The Registrant added polypropylene products to its industrial sorbents product line and also entered the marine oil spill response market through its acquisition of Industrial Environmental Products, Inc. ("IEP") in April, 1990. IEP was a distributor and marketer of these products, primarily in the southeast United States. The Registrant purchases the majority of these polypropylene materials from several unaffiliated suppliers. The Registrant has acquired equipment affording it the capability to cut polypropylene products, acquired in bulk form, to customer specifications and to fill a variety of configurations. The polypropylene products will collect up to approximately 15 times their own weight in liquids and offer the added benefit of incinerability and recyclability in accordance with environmentally permissible methods. OIL-DRI(R) Sorbent Booms and OIL-DRI(R) Sorbent Pads, which are made from meltblown polypropylene, will selectively remove oil from the surface of any body of water. They can be used for emergency spill response or for cleaning and maintenance. The Registrant's needle-punched polypropylene products will adsorb oil and aqueous liquids from industrial floors and surfaces.

The Registrant sells its industrial and environmental 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(R) Automotive, a floor absorbent for home and garage use. This product is sold through automobile parts distributors and mass merchandisers.

#### Agrisorbents Product Group

The Registrant produces and markets a wide range of granular and powdered mineral absorbent products that are used with crop protection chemicals, animal feed, fertilizers and other horticultural applications. Products include AGSORB(R) agricultural chemical carriers and drying agents; FLO-FRE(R), a highly absorbent microgranule flowability aid; PEL-UNITE(R) and CONDITIONADE, pelleting aids, used in the manufacture of animal feeds, and TERRA GREEN(R) Soil Conditioner.

The AGSORB(R) Carriers are used as mediums of distribution for crop protection chemicals, including herbicides, fungicides, insecticides, and fertilizers. AGSORB(R) customized carriers are designed to reduce dust and to increase 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 AGSORB(R) as a blending agent for fertilizers and chemicals used in the lawn and garden market.

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

#### Fluids Purification Products Group

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

PURE-FLO(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 Aid is used as a filtration and purification medium for jet fuel and other petroleum based oils. This product adsorbs unwanted moisture and other impurities, and is primarily sold to oil refiners.

The Registrant also produces PERFORM(TM) and SELECT(TM) 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) can also be used to replace the water wash step in the caustic refining of edible oils.

#### Transportation Services

Oil-Dri Transportation Company leases or contracts for 105 tractors, 241 trailers, 193 covered rail hopper cars and other special use equipment for the delivery of the Registrant's products in package and bulk form. Through this subsidiary, the Registrant can control freight costs, maintain delivery schedules and assure equipment availability. Oil-Dri Transportation Company primarily performs transportation services for the Registrant on outbound movements from the Registrant's production plants. Oil-Dri Transportation Company also generates revenue from transporting third parties' products on return trips.

## Patents

Registrant has obtained or applied for patents for certain of its processes and products. These patents expire at various times, beginning in 1997. Patented processes and products are not material to Registrant's overall business.

## Foreign

SAULAR(R), manufactured and marketed by Favorite Products Company, Ltd., the Registrant's wholly-owned Canadian subsidiary, is a leading brand of cat litter sold in Canada. Favorite Products Company, Ltd. also packages and markets the SAULAR KAT-KIT which contains cat litter in a disposable tray. Certain of the products sold in Canada are blends of clay and synthetic sorbent materials.

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

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

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

## Backlog; Seasonality

At July 31, 1997 and 1996, Registrant's backlog of orders was approximately \$3,049,000 and \$3,150,000 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. and its affiliate Sam's Club accounted for approximately 24% of the Registrant's net sales for the fiscal year ended July 31, 1997. Sales to The Clorox Company accounted for approximately 8% of the Registrant's net sales for the fiscal year ended July 31, 1997. Clorox and the Registrant are parties to a long term supply contract. The loss of any other of Registrant's customers would not have a materially adverse effect on the Registrant.

## Competition

Registrant has approximately seven 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 Registrant's markets and competition has historically been very vigorous. The Registrant believes that it can compete favorably in all of its present markets.

## Reserves

Registrant mines sorbent materials, consisting of either montmorillonite, attapulgite or diatomaceous earth on leased or owned land near its mills in Mississippi, Georgia 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 512,704,000 tons. Based on its rate of consumption during the 1997 fiscal year, Registrant considers its proven recoverable reserves adequate to supply Registrant's needs for approximately 45 years. It is the Registrant's policy to attempt to add to reserves each year an amount at least equal to the amount of reserves consumed in that year. Registrant has a program of exploration for additional reserves and, although reserves have increased, Registrant cannot assure that such reserves will continue to increase. 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, 1997, the Registrant utilized these reserves to produce substantially all of the sorbent minerals that it sold.

In 1997, the Registrant acquired mineral reserves on approximately 4,735 acres in Nevada. This acreage is in addition to approximately 598 acres acquired in 1991 in Washoe County, Nevada of which 415 acres are mineral in character. The Registrant estimates that there are 298 million tons of proven reserves of sorbent materials on the combined acreage. Mining these reserves requires the approval of federal, state and local agencies, which approvals the Registrant is in the process of seeking. In the future, the Registrant hopes to develop facilities so as to use these reserves as a source of supply for its West Coast customers. However, there can be no assurance that this will be accomplished.

## Mining Operations

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

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

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

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

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

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

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

	LAND	PLANT AND EQUIPMENT
	-----	-----
Ochlocknee, Georgia	\$1,784,543	\$19,129,608
Ripley, Mississippi	\$1,491,765	\$13,660,318
Blue Mountain, Mississippi	\$ 938,182	\$ 7,785,138
Christmas Valley, Oregon	\$ 68,044	\$ 539,959

#### Employees

As of July 31, 1997, the Registrant employed 665 persons, 55 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 50 of the Registrant's employees in the U.S. and approximately 12 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 and Oregon are required to comply with state strip 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, in recent years 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 natural gas and fuel oil as energy sources for the processing of its clay products. In prior years, the Registrant has switched from natural gas to fuel oil during the winter months due to the seasonal unavailability and higher cost of natural gas relative to fuel oil. The Registrant also utilizes a significant amount of diesel fuel in its transportation operation.



## 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) CAT'S PRIDE(R) Scoopable and LASTING PRIDE. The technical center produces prototype samples and tests new products for customer trial and evaluation.

Registrant spent approximately \$2,049,000, \$2,026,000 and \$1,826,000 during its fiscal years ended July 31, 1997, 1996 and 1995, 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.

## Other

The Registrant holds approximately a 13% equity interest in Kamterter, Inc., a research and development company located in Lincoln, Nebraska. Kamterter applies biotechnology in the agricultural field and utilizes the Registrant's clay products in a development-stage process to prime seeds. At July 31, 1997, the Registrant's investment, at cost, in Kamterter was approximately \$752,000. Although Kamterter has a substantial negative net worth, during the year ended February 28, 1997, and in recent interim periods, Kamterter has generated operating profits. While the Registrant believes that Kamterter's prospects have improved, Kamterter's future financial condition and results of operations cannot be predicted.

## Item 2. PROPERTIES

Registrant's properties are generally described below:

## LAND HOLDINGS &amp; MINERAL RESERVES

	LAND OWNED (acres)	LAND LEASED (acres)	TOTAL (acres)	PROVEN RESERVES (000s of tons)	PROBABLE RESERVES (000s of tons)	TOTAL (000s of tons)
Georgia	1,484	1,804	3,288	43,395	8,436	51,831
Mississippi	2,317	1,423	3,740	129,703	118,323	248,026
Oregon	1,260	1,580	2,840	36,778	5,802	42,580
Florida	537	446	983	4,512	1,092	5,604
Nevada	415	4,735	5,150	298,316	227,976	526,292
Illinois	4	-	4	-	-	-
	6,017	9,988	16,005	512,704	361,629	874,333

See "Item 1. Business-Reserves"

There are no mortgages on the property owned by Registrant. The Mississippi, Georgia, Oregon and Florida land is used primarily for mining. Parcels of such land are also sites of mills operated by Registrant. The Illinois land is the site of 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. The Georgia, Florida and Mississippi mining leases, with expiration dates ranging from 1999 to 2053, no one of which is material, generally provide for a lease term which continues as long as the Registrant pays a minimum monthly rental. 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.

The Registrant operates mills at Ripley, Mississippi, Ochlocknee, Georgia, Christmas Valley, Oregon, and Blue Mountain, Mississippi; production and packaging plants at Laval, Quebec, Canada and Wisbech, United Kingdom. Registrant's facilities at Ripley, Mississippi; Ochlocknee, Georgia; Christmas Valley, Oregon; Laval, Quebec, Canada and Wisbech, United Kingdom are wholly owned by Registrant and Registrant's mill at Blue Mountain, Mississippi is owned in-part by Registrant, with the balance leased as herein after described. Registrant is a party to leases that relate to certain plant acquisition and expansion projects at the Registrant's mill at Blue Mountain, Mississippi. The Blue Mountain, Mississippi lease was entered into with The Town of Blue Mountain, Mississippi in 1988 in connection with the issuance by the Town of \$7,500,000 in aggregate principal amount of industrial revenue bonds, (\$5,000,000 of which has been subsequently retired), full payment of which is guaranteed by the Registrant. Upon expiration of the leases in 2008, a subsidiary of the Registrant has the right to purchase the leased property for \$100 upon full payment of the bonds. The land on which the mill 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.

All of Registrant's domestic mills, whether owned or leased, consist of related steel frame, sheet steel covered or brick buildings of various heights, with concrete floors and storage tanks. The buildings occupy approximately 208,000 square feet at Ripley, Mississippi, 247,000 square feet at Ochlocknee, Georgia, 18,000 square feet at Christmas Valley, Oregon and 140,000 square feet at Blue Mountain, Mississippi. Registrant maintains railroad siding facilities near the Ripley, Mississippi; Ochlocknee, Georgia and Blue Mountain, Mississippi mills. Equipment at all mills 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 32,500 square feet at Wisbech, United Kingdom.

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

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

### Item 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings.

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

Not applicable.

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

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

NAME (3)	PRINCIPAL OCCUPATION FOR LAST FIVE YEARS	AGE
Richard M. Jaffee	Chairman of the Board of the Registrant; President from 1960 to June, 1995; Chief Executive Officer from 1962 until 1997.	61
Daniel S. Jaffee (2)	President and Chief Executive Officer of the Registrant; President and Chief Operating Officer from June, 1995 until August, 1997; Chief Executive Officer of Favorite Products Company, Ltd., a subsidiary of the Registrant since 1990; Chief Financial Officer of the Registrant from 1990 to 1995; Group Vice President, Consumer Products of the Registrant from 1994 to 1995; Group Vice President Canadian Operations and Consumer Products - Grocery from 1992 until June, 1994.	33
Joseph C. Miller	Vice Chairman of The Board of the Registrant; Senior Vice President for Consumer, Industrial & Environmental and Transportation from 1993 to 1995; Group Vice President for Sales, Marketing and Distribution, from 1990 to 1993.	55
Norman B. Gershon	Vice President, International Operations of the Registrant; Managing Director of Oil-Dri, S.A., a subsidiary of the Registrant.	62
Michael L. Goldberg	Executive Vice President & Chief Financial Officer of the Registrant; Vice President & Chief Financial Officer from May, 1996 until August, 1997; Vice President & Controller, Alberto-Culver USA, Inc. from August 1991 until April, 1996.	47
Richard V. Hardin (1)	Group Vice President, Technology, of the Registrant.	58
Daniel J. Jones	Vice President of Favorite Products Co., LTD, a subsidiary of the Registrant; Div. III National Sales Manager - Grocery of the Registrant 1994 to 1996; National Sales Manager, Favorite Products Co. 1990 to 1994.	36
Steven M. Levy	Vice President Consumer Products Group of the Registrant; General Manager Consumer Products Div. 1995 to 1996; Miles, Inc. Director of Marketing, 1992 to 1995.	38

The term of each executive officer expires at the 1997 Annual Meeting of the Stockholders and when his successor is elected and qualified.

- (1) Richard V. Hardin is Richard M. Jaffee's son-in-law.
- (2) Daniel S. Jaffee and Richard M. Jaffee are the nephew and brother, respectively, of Robert D. Jaffee, a director of the registrant.
- (3) Of the persons in this table, only Richard M. Jaffee and Daniel S. Jaffee are directors.

## PART II

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

Information concerning stock prices and dividends with regard to the Common Stock of Registrant, which is traded on the New York Stock Exchange, and information concerning dividends with regard to the Class B Stock of Registrant, for which there is no established public trading market, is contained on page 34 of the Annual Report under the caption "Common Stock" and is incorporated herein by this reference. No shares of Class A common stock are outstanding. Registrant's ability to pay dividends is limited by the Registrant's Credit Agreement with Harris Trust and Savings Bank dated September 21, 1994. See Note 3 of "Notes to Consolidated Financial Statements" in the Annual Report, incorporated herein by reference.

## Item 6. SELECTED FINANCIAL DATA

See the "Five Year Summary of Financial Data" on page 13 of the Annual Report, and "Financial Highlights" on page 1 incorporated herein by reference.

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

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 14 to 17 of the Annual Report, incorporated herein by reference.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Consolidated Statements of Income," "Consolidated Statements of Stockholders' Equity," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements" and "Independent Auditor's Report" on pages 18 to 34 of the Annual Report, "Five Year Summary of Financial Data" on page 13 of the Annual Report, and "Selected Quarterly Financial Data" on page 33 of the Annual Report, incorporated herein by reference.

## Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## PART III

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

The information required by this item is (except for information in Part I, hereof, concerning executive officers) contained in the Registrant's Proxy Statement for its 1997 Annual Meeting of stockholders ("Proxy Statement") under the caption "Election of Directors" and is incorporated herein by this reference.

## 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 Stock Option Committee of Oil-Dri Corporation of America on Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Performance Graph" and is incorporated herein by this reference.

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

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

## Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

## PART IV

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

(a)(1) The following financial statements are contained on pages 18 to 34 of the Annual Report and are incorporated herein by this reference:

Consolidated Balance Sheets as of July 31, 1997 (audited) and July 31, 1996 (audited).

Consolidated Statements of Income for the fiscal years ended July 31, 1997 (audited), July 31, 1996 (audited) and July 31, 1995 (audited).

Consolidated Statements of Stockholders' Equity for the fiscal years ended July 31, 1997 (audited), July 31, 1996 (audited) and July 31, 1995 (audited).

Consolidated Statements of Cash Flows for the fiscal years ended July 31, 1997 (audited), July 31, 1996 (audited) and July 31, 1995 (audited).

Notes to Consolidated Financial Statements.

Independent Auditor's Report.

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

Independent Auditor's Report on Schedules.

Schedules to Financial Statements, as follows:

Schedule II - Valuation and Qualifying Accounts, years ended July 31, 1997, 1996 and 1995.

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

(3)(a)(1) Articles of Incorporation of Registrant, as amended.

(3)(b)(2) By-Laws of Registrant, as amended of June 16, 1995.

(10)(c)(1)(3) Agreement ("Clorox Agreement") dated January 12, 1981 between The Clorox Company and 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.

-----  
(1) Incorporated by reference to Exhibit (3) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995. Documents incorporated by reference are at Commission File No. 0-8675.

(2) Incorporated by reference to Exhibit (3)(b) to 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 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 Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1989.

(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 Registrant (Confidential treatment of certain portions of this Exhibit has been granted).
- (10)(d)(6) Description of 1987 Executive Deferred Compensation Program.\*
- (10)(e)(7) Salary Continuation Agreement dated August 1, 1989 between Richard M. Jaffee and the Registrant.\*
- (10)(f)(8) 1988 Stock Option Plan.\*
- (10)(g)(9) Note Agreement, dated April 5, 1991, between Registrant and the Teacher's Insurance and Annuity Association of America regarding \$8,000,000 9.38% Senior Notes due November 15, 2001.
- (10)(h)(10) Note Agreement, dated as of April 15, 1993, between Registrant and the Teacher's Insurance and Annuity Association of America regarding \$6,500,000 7.17% Senior Notes due August 15, 2004.
- (10)(i)(11) Credit Agreement, dated as of September 21, 1994, between 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)(12) The Oil-Dri Corporation of America Deferred Compensation Plan adopted November 15, 1995 and related resolution.\*
- (10) (k) Oil-Dri Corporation of America 1995 Long Term Incentive Plan as amended through July 31, 1997.\*
- (10) (l) \$10,000,000 unsecured line of credit agreement dated as of July 25, 1996 between Registrant and

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

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

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

(8) Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement on Form S-8, filed June 30, 1989, Registration No.1 33-29650.

(9) Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1991.

(10) Incorporated by reference to Exhibit 10(i) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993.

(11) Incorporated by reference to Exhibit 10(i) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1994.

(12) Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the year ended July 31, 1995.



Exhibit  
Index

Harris Trust and Savings Bank incorporated by reference to Exhibit 10(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1996.

- (11) Statement re: computation of per share earnings.
- (13) 1997 Annual Report to Stockholders of Registrant.
- (21) Subsidiaries of Registrant.
- (23) Consent of Blackman Kallick Bartelstein, LLP.
- (27) Financial Data Schedule.

\*Management contract or compensatory plan or arrangement.

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.
- (b) No reports on Form 8-K were filed by Registrant with the Commission during the last fiscal quarter of the fiscal year ended July 31, 1997.

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 21, 1997

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 21, 1997

-----  
Richard M. Jaffee  
Chairman of the Board of Directors

/s/ Michael L. Goldberg October 21, 1997

-----  
Michael L. Goldberg  
Executive Vice President and  
Chief Financial Officer  
Principal Financial Officer

/s/ James F. Japczyk October 21, 1997

-----  
James F. Japczyk  
Corporate Controller  
Principal Accounting Officer

/s/ Robert D. Jaffee October 21, 1997

-----  
Robert D. Jaffee  
Director

/s/ Ronald B. Gordon October 21, 1997

-----  
Ronald B. Gordon  
Director

/s/ J. Steven Cole October 21, 1997

-----  
J. Steven Cole  
Director

/s/ Joseph C. Miller  
-----  
Joseph C. Miller  
Director

October 21, 1997

/s/ Edgar D. Jannotta  
-----  
Edgar D. Jannotta  
Director

October 21, 1997

/s/ Paul J. Miller  
-----  
Paul J. Miller  
Director

October 21, 1997

/s/ Haydn H. Murray  
-----  
Haydn H. Murray  
Director

October 21, 1997

/s/ Allan H. Selig  
-----  
Allan H. Selig  
Director

October 21, 1997

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

October 21, 1997

## INDEPENDENT AUDITOR'S REPORT ON SCHEDULES

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

In connection with our audit of the consolidated financial statements of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 1997 and 1996 and for each of the three years in the period ended July 31, 1997, which report thereon dated August 30, 1997, is incorporated by reference in this Annual Report on Form 10-K, we also examined the financial statement schedules listed in the accompanying index at Item 14(A)(2). In our opinion, these financial statement schedules present fairly, when read in conjunction with the related consolidated financial statements, the financial data required to be set forth therein.

August 30, 1997

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## OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES

## Valuation and Qualifying Accounts

Years Ended July 31, 1997, 1996 and 1995

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions*	Balance at End of Period
-----	-----	-----	-----	-----
Allowance for doubtful accounts:				
Year Ended July 31, 1997	\$225,970	\$125,000	\$ 90,440	\$260,530
	=====	=====	=====	=====
Year Ended July 31, 1996	\$180,602	\$202,690	\$157,322	\$225,970
	=====	=====	=====	=====
Year Ended July 31, 1995	\$171,940	\$ 51,013	\$ 42,351	\$180,602
	=====	=====	=====	=====

\*Net of recoveries.

OILDRI CORPORATION OF AMERICA  
1995 LONG TERM INCENTIVE PLAN  
AS AMENDED AND RESTATED  
3/14/97

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OIL DRI CORPORATION OF AMERICA  
1995 LONG-TERM INCENTIVE PLAN  
(AS AMENDED)

1. Establishment, Purpose and Effective Date and Termination of the Oil-Dri Corporation of America 1988 Stock Option Plan.

(a) Establishment. The Company hereby establishes the Oil-Dri Corporation of America 1995 Long-Term Incentive Plan ("Plan").

(b) Purpose. The primary purpose of the Plan is to provide a means by which key employees of the Company and its Subsidiaries can acquire and maintain stock ownership, thereby strengthening their commitment to the success of the Company and its Subsidiaries and their desire to remain employed by the Company and its Subsidiaries, focusing their attention on managing the Company as an equity owner, and aligning their interests with those of the Company's stockholders. The Plan also is intended to attract and retain key employees and to provide such employees with additional incentive and reward opportunities designed to encourage them to enhance the profitable growth of the Company and its Subsidiaries.

(c) Effective Date. The Plan shall become effective upon its adoption by the Board, subject to the approval of the votes of a majority of the shares of Common Stock and Class B Stock of the Company voting together present or represented by proxy at the 1995 annual meeting of stockholders. Until such approval shall have been obtained, no Option, stock appreciation right, or performance unit shall be exercised, no stock bonus shall be granted, no performance share shall be paid, and no shares of restricted stock shall become nonforfeitable. If such shareholder approval is not obtained at the 1995 annual meeting of shareholders, all Awards shall automatically become null and void and no further Awards shall be granted.

(d) Termination of the Oil-Dri Corporation of America 1988 Stock Option Plan. Effective upon stockholder approval of this Plan, the Oil-Dri Corporation of America 1988 Stock Option Plan shall terminate and the shares of Stock allotted for stock option grants under that plan, which are not the subject of outstanding options granted under that plan, shall not be available for the granting of any further options or other awards under that plan or any other employee or director plan or arrangement of the Company. The options outstanding under the Oil-Dri Corporation of America 1988 Stock Option Plan shall remain outstanding and exercisable in accordance with their respective terms.

2. Definitions. As used in the Plan, terms defined parenthetically immediately after their use shall have the respective meanings provided by such definitions and the terms set forth below shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

(a)"Award" means Options, shares of restricted Stock, stock appreciation rights, performance units, or performance shares stock bonuses or shares of phantom stock granted under the Plan.

(b)"Award Agreement" means the written agreement by which an Award is evidenced.

(c)"Beneficial Owner", "Beneficially Owned", "Beneficially Owning", and "Beneficial Ownership" shall have the meanings applicable under Rule 13d-3 promulgated under the 1934 Act.

(d)"Board" means the board of directors of the Company.

(e)"Change in Capitalization" means any increase or reduction in the number of shares of Stock, or any change in the shares of Stock or exchange of shares of Stock for a different number or kind of shares or other securities by reason of a stock dividend (either as a dividend of the same class of Stock or as a dividend of a different class of Stock), stock split, reverse stock split, share combination, reclassification, recapitalization, merger, consolidation, spin-off, split-up, reorganization, issuance of warrants or rights, liquidation, exchange of shares, repurchase of shares, change in corporate structure, or similar event, of or by the Company.

(f)"Change of Control" means any of the following

- (i) Class B Stock, together with the Common Stock held by the Beneficial Owner of the Class B Stock, has less than 50% of the Voting Power of the Company, and
- (A) the acquisition by any person or group of Beneficial Ownership of stock possessing more than 20% of the Voting Power of the Company, except that (i) no such person or group shall be deemed to own beneficially (a) any securities acquired directly from the Company pursuant to a written agreement with the Company, or (b) any securities held by the Company or a Subsidiary or any employee benefit plan (or any related trust) of the Company or a Subsidiary, and (ii) no Change of Control shall be deemed to have occurred solely by reason of any such acquisition by a corporation with respect to which, after such acquisition, more than 60% of both the then-outstanding common shares of such corporation and the Voting Power of such corporation are then Beneficially Owned, directly or indirectly, by the persons who were the Beneficial Owners of the Stock and voting securities of the Company immediately before such acquisition in substantially the same proportions as their ownership, immediately before such acquisition, of the then outstanding Stock or the Voting Power of the Company, as the case may be; or
- (B) individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided that any individual who becomes a director after the Effective Date whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 under the 1934 Act); or
- (ii) approval by the stockholders of the Company of (A) a merger, reorganization or consolidation with respect to which the individuals and entities who were the respective Beneficial Owners of the Stock and Voting Power of the Company immediately before such merger, reorganization or consolidation do not, immediately after such merger, reorganization or consolidation, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding common shares and the Voting Power of the corporation resulting from such merger, reorganization or consolidation, (B) a liquidation or dissolution of the Company or (C) the sale or other disposition of all or substantially all of the assets of the Company.

For purposes of this definition, "person" means such terms as used in SEC Rule 13d-5(b) under the 1934 Act, and "group" means two or more persons acting together in such a way to be deemed a person for purposes of Section 13(d) of the 1934 Act.

Notwithstanding the foregoing, a Change of Control shall be deemed not to have occurred with respect to any Grantee or Transferee with respect to an Award initially issued to such Grantee if such Grantee is, by written agreement, a participant on such Grantee's own behalf in a transaction in which the persons (or their affiliates) with whom such Grantee has the written agreement cause the Change of Control to occur and, pursuant to the written agreement, the Grantee has or is to acquire an equity interest in the resulting entity.

(g)"Committee" means the committee of the Board appointed pursuant to Article 4.

(h)"Company" means Oil-Dri Corporation of America, a Delaware corporation.

(i)"Disability" means for purposes of the exercise of an incentive stock option, a disability within the meaning of Section 22(e)(3) of the Code, and for all other purposes, a mental or physical condition which, in the opinion of the Committee, renders a Grantee unable or incompetent to carry out the job responsibilities which such Grantee held or the duties to which such Grantee was assigned at the time the disability was incurred, and which is expected to be permanent or for an indefinite duration.

(j)"Effective Date" means the date that the Plan is adopted by the Board.

(k)"Fair Market Value" of any security of the Company or any other issuer means, as of any applicable date:

(i)if the security is listed for trading on the New York Stock Exchange, the closing price, regular way, of the security as reported on the New York Stock Exchange Composite Tape, or if no such reported sale of the security shall have occurred on such date, on the next preceding date on which there was such a reported sale, or

(ii)if the security is not so listed, but is listed on another national securities exchange or authorized for quotation on the National Association of Securities Dealers Inc.'s NASDAQ National Market Systems ("NASDAQ/NMS"), the closing price, regular way, of the security on such exchange or NASDAQ/NMS, as the case may be, or if no such reported sale of the security shall have occurred on such date, on the next preceding date on which there was such a reported sale, or

(iii)if the security is not listed for trading on a national securities exchange or authorized for quotation on NASDAQ/NMS, the average of the closing bid and asked prices as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or, if no such prices shall have been so reported for such date, on the next preceding date for which such prices were so reported, or

(iv)if the security is not listed for trading on a national securities exchange or is not authorized for quotation on NASDAQ/NMS or NASDAQ, the fair market value of the Common Stock of the Company as determined in good faith by the above terms.

(l)"Grant Date" means the date of grant of an Award determined in accordance with Article 6.

(m)"Grantee" means an individual who has been granted an Award.

(n)"Holder" means a person who holds an Award, either as a Grantee or a Transferee.

(o)"Incentive Stock Option" means an Option satisfying the requirements of Section 422 of the Internal Revenue Code and designated by the Committee as an Incentive Stock Option.

(p)"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, and regulations and rulings thereunder. References to a particular Section of the Internal Revenue Code shall include references to successor provisions.

(q)"Measuring Period" has the meaning specified in Article 6(f)(ii)(B).

(r)"Minimum Consideration" means the \$.10 par value per share of Stock or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

(s)"1934 Act" means the Securities Exchange Act of 1934, as amended.

(t)"Nonqualified Stock Option" means an Option which is not an Incentive Stock Option or other type of statutory stock option under the Internal Revenue Code.

(u)"Option" means an option to purchase Stock granted under the Plan.

(v)"Option Price" means the per share purchase price of (i) Stock subject to an Option or (ii) restricted Stock subject to an Option.

(w)"Performance Goals" has the meaning set forth in Article 6(j).

(x)"Performance Percentage" has the meaning specified in Article 6(f)(ii)(C).

(y)"Person" means a person within the meaning of Sections 13(d) or 14(d) of the 1934 Act.

(z)"Plan" has the meaning set forth in Article 1(a).

(aa)"SEC" means the Securities and Exchange Commission.

(bb)"Section 16 Grantee" means a person subject to potential liability with respect to equity securities of the Company under Section 16(b) of the 1934 Act.

(cc)"Stock" means Class A Common Stock or if no Class A Common Stock is issued and publicly traded on any securities market described in Article 2(k) above, then Common Stock par value \$.10 per share, of the Company. Class A Common Stock, Class B Stock and Common Stock shall have the meaning as provided in the Company's Certificate of Incorporation.

(dd)"Subsidiary" means for purposes of grants of incentive stock options, a corporation as defined in Section 424(f) of the Internal Revenue Code, with the Company being treated as the employer corporation for purposes of this definition and, for all other purposes, a corporation with respect to which the Company owns, directly or indirectly, 25% of the then-outstanding common shares.

(ee)"10% Owner" means a person who owns stock (including stock treated as owned under Section 424(d) of the Internal Revenue Code) possessing more than 10% of the Voting Power of the Company.

(ff)"Transferee" means a person who is the Holder of an Award as the result of a transfer of the Award in accordance with the terms of the Award and the Plan.

(gg)"Termination of Employment" occurs the first day on which an individual is for any reason no longer employed by the Company or any of its Subsidiaries, or with respect to an individual who is an employee of a Subsidiary, the first day on which the Company no longer owns Voting Securities possessing at least 25% of the Voting Power of such Subsidiary.

(hh)"Voting Power" means the combined voting power of the then outstanding Voting Securities.

(ii)"Voting Securities" means, with respect to the Company or any Subsidiary, any securities issued by the Company or such Subsidiary, respectively, which generally entitle the holder thereof to vote for the election of directors of the Company.

### 3. Scope of the Plan.

(a)Number of Shares Available Under the Plan. The maximum number of shares of Stock that may be made the subject of Awards granted under the Plan is 500,000 (or the number and kind of shares of Stock or other securities to which such shares of Stock are adjusted upon a Change in Capitalization pursuant to Article 18). The Company shall reserve for the purpose of the Plan, out of its authorized but unissued shares of Stock or out of shares held in the Company's treasury, or partly out of each, such number of shares as shall be determined by the Board. The Board shall have the authority to cause the Company to purchase from time to time shares of Stock to be held as treasury shares and used for or in connection with Awards.

(b)Reduction in the Available Shares in Connection with Awards Grants. Upon the grant of an Award, the number of shares of Stock available under Article 3(a) for the granting of further Awards shall be reduced as follows:

(i)Performance Units Denominated in Dollars. In connection with the granting of each performance unit denominated in dollars, the number of shares of Stock available under Article 3(a) for the granting of further Awards shall be reduced by the quotient of (x) the dollar amount represented by the performance unit divided by (y) the Fair Market Value of a share of Stock on the date immediately preceding the Grant Date of the performance unit.

(ii)Other Awards. In connection with the granting of each Award, other than a performance unit denominated in dollars, the number of shares of Stock available under Article 3(a) for the granting of further

Awards shall be reduced by a number of shares equal to the number of shares of Stock in respect of which the Award is granted or denominated.

Notwithstanding the foregoing, where two or more Awards are granted with respect to the same shares of Stock, such shares shall be taken into account only once for purposes of this Article 3(b).

(c)Effect of the Expiration or Termination of Awards. If and to the extent an Award expires, terminates or is canceled or forfeited for any reason without having been exercised in full (including, without limitation, a cancellation of an Option pursuant to Article 4(c)(vi)), the shares of Stock associated with the expired, terminated, canceled or forfeited portion of the Award (to the extent the number of shares available for the granting of Awards was reduced pursuant to Article 3(b)) shall again become available for Awards under the Plan.

In addition, during the period that any Awards remain outstanding under the Plan the Committee may make good faith adjustments with respect to the number of shares of Stock attributable to such Awards for purposes of calculating the maximum number of shares available for the granting of future Awards under the Plan.

(d)Maximum Number of Options and Stock Appreciation Rights to any Individual Grantee. No individual Grantee may be granted Options and stock appreciation rights to purchase more than one-fourth of the maximum number of shares of Stock that may be made subject of Awards under the Plan as set forth in Article 3(a).

#### 4. Administration.

(a) Committee Administration. Subject to Article 4(b), the Plan shall be administered by the Committee, which shall consist of not less than three "disinterested persons" within the meaning of Rule 16b-3 under the 1934 Act; provided, however, that the membership of the Committee shall be subject to such changes (including, if appropriate, a change in the minimum number of members of the Committee) as the Board deems appropriate and permissible to permit transactions pursuant to the Plan to be exempt from potential liability under Section 16(b) of the 1934 Act.

(b) Board Reservation and Delegation. The Board may, in its discretion, reserve to itself or delegate to another committee of the Board any or all of the authority and responsibility of the Committee with respect to Awards to Grantees who are not Section 16 Grantees at the time any such delegated authority or responsibility is exercised. Such other committee may consist of one or more directors who may, but need not be, officers or employees of the Company or of any of its Subsidiaries. To the extent that the Board has reserved to itself or delegated the authority and responsibility of the Committee to such other committee, all references to the Committee in the Plan shall be to the Board or to such other committee.

(c) Committee Authority. The Committee shall have full and final authority, in its discretion, but subject to the express provisions of the Plan, as follows:

(i) to grant Awards,

(ii) to determine (A) when Awards may be granted and (B) whether or not specific Awards shall be identified with other specific Awards, and if so, whether they shall be exercisable cumulatively with, or alternatively to, such other specific Awards,

(iii) to interpret the Plan and to make all determinations necessary or advisable for the administration of the Plan,

(iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including without limitation, rules with respect to the exercisability and non-forfeitability of Awards upon the Termination of Employment of a Grantee regardless of whether the Award is held by such Grantee or a Transferee of an Award initially issued to such Grantee,

(v) to determine the terms and provisions of the Award Agreements, including Performance Goals, if any, which need not be identical and, with the consent of the Holder, to modify any such Award Agreement at anytime, provided that the consent of the Holder shall not be required for any amendment which (A) does not adversely

affect the rights of the Holder, or (B) is necessary or advisable (as determined by the Committee) to carry out the purpose of the Award as a result of any new or change in existing applicable law, regulation, ruling or judicial decision; provided that any such change shall be applicable only to Awards which have not been exercised;

(vi) to cancel, with consent of the Holder, outstanding Awards,

(vii) to accelerate or extend (subject to Article 6(a)(ii)) the time during which any Award or Grant of Award may be exercised and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award,

(viii) to make such adjustment or modifications to Awards to Grantees working outside the United States as are necessary and advisable to fulfill the purposes of the Plan,

(ix) to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan, and

(x) to impose such additional conditions, restrictions, and limitations upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof deem appropriate, including, without limitation, requiring simultaneous exercise of related identified Awards, and limiting the percentage of Awards which may from time to time be exercised by a Holder.

(d) Committee Determinations Final. The determination of the Committee on all matters relating to the Plan or any Award Agreement shall be conclusive and final. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

5. Eligibility. Awards may be granted to any employee of the Company or any of its Subsidiaries. In selecting the individuals to whom Awards may be granted, as well as in determining the number of shares of Stock subject to, and the other terms and conditions applicable to, each Award, the Committee shall take into consideration such factors as it deems relevant in promoting the purposes of the Plan.

6. Conditions to Grants.

(a) General Conditions.

(i) The Grant Date of an Award shall be the date on which the Committee grants the Award or such later date as specified in advance by the Committee.

(ii) The term of each Award (subject to Article 6(c) with respect to Incentive Stock Options) shall be a period of not more than ten years from the Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement.

(iii) The Committee may grant Awards with terms and conditions which differ among the Grantees thereof. To the extent not set forth in the Plan, the terms and conditions of each Award shall be set forth in an Award Agreement.

(b) Grant of Options and Option Price. The Committee may, in its discretion, grant Options to acquire unrestricted Stock or restricted Stock to any employee eligible under Article 5 to receive Awards. No later than the Grant Date of

any \*Option, the Committee shall determine the Option Price which shall not be less than 100% of the Fair Market Value of the Stock on the Grant Date.

(c) Grant of Incentive Stock Options. At the time of the grant of any Option, the Committee may designate that such Option shall be an Incentive Stock Option. Any Option designated as an Incentive Stock Option:

(i) shall have an Option Price of (A) not less than 100% of the Fair Market Value of the Stock on the Grant Date or (B) in the case of a 10% Owner, not less than 110% of the Fair Market Value of the Stock on the Grant Date;

(ii) shall have a term of not more than ten years (five years, in the case of 10% Owner) from the Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement;

(iii) shall not have an aggregate Fair Market Value (determined for each Incentive Stock Option at its Grant Date) of Stock with respect to which Incentive Stock Options are exercisable for the first time by such Grantee during any calendar year (under the Plan and any other employee stock option plan of the Grantee's employer or any parent or subsidiary thereof ("other Plans")), determined in accordance with the provisions of Section 422 of the Internal Revenue Code, which exceeds \$100,000 (the "\$100,000 Limit");

(iv) shall, if, with respect to any grant, the aggregate Fair Market Value of Stock (determined on the Grant Date) of all Incentive Stock Options previously granted under the Plan and any Other Plans ("Prior Grants") and any Incentive Stock Options under such grant (the "Current Grant") which are exercisable for the first time during any calendar year would exceed the \$100,000 Limit, be exercisable as follows:

(A) the portion of the Current Grant exercisable for the first time by the Grantee during any calendar year which would be, when added to any portions of any Prior Grants exercisable for the first time by the Grantee during such calendar year with respect to Stock which would have an aggregate Fair Market Value (determined as of the respective Grant Date for such Options) in excess of the \$100,000 Limit shall, notwithstanding the terms of the Current Grant, be exercisable for the first time by the Grantee in the first subsequent calendar year or years in which it could be exercisable for the first time by the Grantee when added to all Prior Grants without exceeding the \$100,000 Limit; and

(B) if, viewed as of the date of the Current Grant, any portion of a Current Grant could not be exercised under the provisions of Article 6(c)(iv)(A) during any calendar year commencing with the calendar year in which it is first exercisable through and including the last calendar year in which it may by its terms be exercised, such portion of the Current Grant shall not be an Incentive Stock Option, but shall be exercisable as a separate Nonqualified Stock Option at such date or dates as are provided in the Current Grant;

(v) shall be granted within ten years from the earlier of the date of the Plan is adopted by the Board or the date the Plan is approved by the stockholders of the Company; and

(vi) shall require the Grantee to notify the Committee of any disposition of any Stock issue pursuant to the exercise of the Incentive Stock Option under the circumstances described in Section 421(b) of the Internal Revenue Code (relating to certain disqualifying dispositions) within ten days of such disposition.

(d) Grant of Shares of Restricted Stock.

(i) The Committee may, in its discretion, grant shares of restricted Stock to any employee eligible under Article 5 to receive Awards.

(ii) Shares of restricted Stock will be Class A Common Stock or if no Class A Common Stock is publicly traded on any securities market described in Article 2(k) on the Grant Date of such shares of restricted Stock, then such shares of restricted Stock shall be Common Stock.

(iii) Before the grant of any shares of restricted Stock, the Committee shall determine, in its discretion:

(A) whether the certificates for such shares shall be delivered to the Grantee or held (together with a stock power executed in blank by the Grantee) in escrow by the Secretary of the Company until such shares become nonforfeitable or are forfeited,

(B) the per share purchase price of such shares, which may be zero, provided, however, that

(1) the per share purchase price of all such shares (other than treasury shares) shall not be less than the Minimum Consideration for each such share; and

(C) the restrictions applicable to such grant; and

(D) whether the payment to the Grantee of dividends, or a specified portion thereof, declared or paid on such shares by the Company shall be deferred until the lapsing of the restrictions imposed upon such shares shall be held by the Company for the account of the Grantee, whether such dividends shall be reinvested in additional shares of restricted Stock (to the extent shares are available under Article 3) subject to the same restrictions and other terms as apply to the shares with respect to which such dividends are issued or otherwise reinvested in Stock or held in escrow, whether interest will be credited to the account of the Grantee with respect to any dividends which are not reinvested in restricted or unrestricted Stock, and whether any Stock dividends issued with respect to the restricted Stock to be granted shall be treated as additional shares of restricted Stock.

(iv) Payment of the purchase price (if greater than zero) for shares of restricted Stock shall be made in full by the Grantee before the delivery of such shares and, in any event, no later than ten days after the Grant Date for such shares. Such payment may be made, as determined in advance by either the Board or the Committee in its discretion, in any one or any combination of the following:

(A) cash, or

(B) shares of restricted or unrestricted Class A Common Stock or Common Stock owned by the Grantee prior to such grant and valued at its Fair Market Value on the business day immediately preceding the date of payment;

provided, however, that in the case of payments in shares of restricted or unrestricted Class A Common Stock or Common Stock,

(1) if the purchase price for restricted Stock ("New Restricted Stock") is paid with shares of restricted Class A Common Stock or restricted Common Stock ("Old Restricted Stock"), the restrictions applicable to the New Restricted Stock shall be the same as if the Grantee had paid for the New Restricted Stock in cash unless, in the judgment of the Committee, the Old Restricted Stock was subject to a greater risk of forfeiture, in which case a number of shares of New Restricted Stock equal to the number of shares of Old Restricted Stock tendered in payment for New Restricted Stock shall be subject to the same restrictions as the Old Restricted Stock, determined immediately before such payment.

(v) Upon the date that shares of restricted Stock become non-forfeitable, the Company shall exchange such shares of Common Stock for an equal number of shares of Class A Common Stock if such shares of restricted Stock have been granted as shares of Common Stock and if such A Common Stock is issued and publicly traded on any securities market as described in Article 2(k).

(vi) The Committee may, but need not, provide that all or any portion of a Grantee's Award of restricted Stock shall be forfeited

(A) except as otherwise specified in the Award Agreement, upon the Grantee's Termination of Employment within a specified time period after the Grant Date, or

(B) if the Company or the Grantee does not achieve specified performance goals within a specified time period after the Grant Date and Before the Grantee's Termination of Employment, or



(C) upon failure to satisfy such other restrictions as the Committee may specify in the Award Agreement.

(vii) If a share of restricted Stock is forfeited, then

(A) the Grantee shall be deemed to have resold such share of restricted Stock to the Company at the lesser (1) the purchase price paid by the Grantee (such purchase price shall be deemed to be zero dollars (\$0) if no purchase price was paid) or (2) the Fair Market Value of a share of Stock on the date of such forfeiture;

(B) the Company shall pay to the Grantee the amount determined under clause (A) of this sentence, if not zero, as soon as is administratively practicable, but in any case within 90 days after forfeiture; and

(C) such share of restricted Stock shall cease to be outstanding, and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company, from and after the date of the Company's tender of the payment specified in clause (B) of this sentence, whether or not such tender is accepted by the Grantee, or the date the restricted Stock is forfeited if no purchase price was paid for the restricted Stock.

(viii) Any share of restricted Stock shall bear an appropriate legend specifying that such share is non-transferable and subject to the restrictions set forth in the Plan. If any shares of restricted Stock become nonforfeitable, the Company shall cause certificates for such shares to be issued or reissued without such legend and delivered to the Grantee or, at the request of the Grantee, shall cause such shares to be credited to a brokerage account specified by the Grantee.

(e) Grant of Stock Appreciation Rights. The Committee may grant stock appreciation rights to any employee eligible under Article 5 to receive Awards. When granted, stock appreciation rights may, but need not, be identified with shares of Stock subject to a specific Option awarded to the Grantee (including any Option granted on or before the Grant Date of the stock appreciation rights) in a number equal to or different from the number of stock appreciation rights so granted. If stock appreciation rights are identified with shares of Stock subject to an Option then, unless otherwise provided in the applicable Award Agreement, (i) the Grantee's associated stock appreciation rights shall terminate upon the exercise, expiration, termination, forfeiture, or cancellation of such Option and (ii) the stock appreciation right and such Option can only be transferred pursuant to Article 7 to the same Transferee.

(f) Grant of Performance Units and Performance Shares.

(i) The Committee may, in its discretion, grant performance units or performance shares to any employee eligible under Article 5 to receive Awards.

(ii) Before the grant of any performance unit or performance share, the Committee shall:

(A) determine Performance Goals applicable to such grant,

(B) designate a period, of not less than one year nor more than five years, for the measurement of the extent to which Performance Goals are attained (the "Measuring Period"), and

(C) assign a "Performance Percentage" to each level of attainment of Performance Goals during the Measuring Period, with the percentage applicable to minimum attainment being zero percent (0%) and the percentage applicable to optimum attainment to be determined by the Committee from time to time.

(g) Grant of Phantom Stock. The Committee may, in its discretion, grant shares of phantom stock to any employee who is eligible under Article 5 to receive Awards and is employed outside the United States. Such phantom stock shall be subject to the terms and conditions established by the Committee and set forth in the applicable Award Agreement.

(h) Grant of Stock Bonuses. The Committee may grant shares of Stock as a bonus to any individual eligible under Article 5 to receive Awards.

(i) Tandem Awards. The Committee may grant and identify any Award with any other Award granted under the Plan, on terms and conditions determined by the Committee.

(j) Performance Goals. Performance Goals shall mean the goals applicable to an Award which shall be set forth in a written document prior to the commencement of the Grantee's services to which the Performance Goals under the Award relate and while the outcome is still substantially uncertain. In establishing Performance Goals, the Committee may consider such factor or factors relating to performance as it deems appropriate, including net income, growth in net income, earnings per share, growth of earnings per share return on equity, return on capital, or any other business criteria as contemplated in Section 162(m) of the Code. The Committee, if applicable, shall certify in writing prior to payment of compensation related to any applicable performance unit, performance share, restricted stock or share of phantom stock that the Performance Goals and any other material terms were satisfied. The Committee may, at any time, modify Performance Goals as a result of changes required in applicable laws. If a Grantee is promoted, demoted or transferred to a different business unit of the Company during a performance period, then, to the extent the Committee determines the Performance Goals are no longer appropriate, the Committee may adjust, change or eliminate the Performance Goals or as it deems appropriate in order to make them appropriate and comparable to the initial Performance Goals.

7. Non-transferability. Except as hereinafter provided, each Award granted hereunder shall by its terms not be assignable or transferable, and may be exercised, during the Grantee's lifetime, only by the Grantee. Notwithstanding the foregoing (a) if the Award is exercisable after the Grantee's death, it may be exercised by the Grantee's legal representative or by a beneficiary designated in writing by the Grantee to exercise his or her Award after the Grantee's death, and (b) the Grantee may transfer an Award held by such Grantee (other than an Incentive Stock Option or restricted Stock) (i) for no consideration to any of the following permissible transferees: any member of the Grantee's Immediate Family, and any general or limited partnership each of the partners of which are members of the Grantee's Immediate Family and which prohibits a transfer of all or any part of any interest in the partnership except to the partnership or to any of the foregoing; and (ii) to such other person or entity, and on such terms and conditions, as the Committee, in its discretion, may permit. Any Award so transferred shall be subject after transfer to all of the terms and conditions of such Award prior to the transfer and shall not be further transferable without the consent of the Committee. "Immediate Family" means, with respect to a particular Grantee, that Grantee's spouse, any parent and any lineal descendent (including any adopted child) of any parent of that Grantee or of that Grantee's spouse, and any trustee, guardian or custodian for any of the foregoing. Each share of restricted Stock shall be non-transferable until such share becomes nonforfeitable.

#### 8. Exercise.

(a) Exercise of Options. Subject to Article 4(c)(vii), 11 and 12 and such terms and conditions as the Committee may impose, each Option shall be exercisable in one or more installments commencing not earlier than the first anniversary of the Grant Date of such Option; provided, however, that all Options shall become fully (100%) exercisable upon the occurrence of a Change of Control regardless of whether the acceleration of the exercisability of such Options would cause such Options to lose their eligibility for treatment as Incentive Stock Options. Notwithstanding the foregoing, Options may not be exercised by a Grantee for twelve months following a hardship distribution to the Grantee, to the extent such exercise is prohibited under Treasury Regulation 1.401(k)-1(d)(2)(iv)(B)(4). Each Option shall be exercised by delivery to the Company of written notice of intent to purchase a specific number of shares of Stock or restricted Stock subject to the Option. Such stock will be Class A Common Stock or if no Class A Common Stock is publicly traded on any securities market described in Article 2(k) on the date such options are exercised, then Common Stock. The Option Price of any shares of Stock or restricted Stock as to which an Option shall be exercised shall be paid in full at the time of the exercise. Payment may be made, as determined in advance by either the Board or the Committee in its discretion, in any one or any combination of the following:

(i) cash,

(ii) shares of restricted or unrestricted Class A Common Stock or Common Stock owned by the Holder prior to the exercise of the Option and valued at its Fair Market Value on the last business day immediately preceding the date of exercise, or

(iii) through simultaneous sale through a broker of shares of unrestricted Stock acquired on exercise, as permitted under Regulation T of the Federal Reserve Board.

Payment of the option price with Stock simultaneously acquired by option exercise may be made, with the consent in advance of the Board or the Committee.

If restricted Class A Common Stock or Common Stock ("Tendered Restricted Stock") is used to pay the Option Price for Stock, then a number of shares of Stock acquired on exercise of the Option equal to the number of shares of Tendered Restricted Stock shall be subject to the same restrictions as the Tendered Restricted Stock, determined as of the date of exercise of the Option. If the Option Price for restricted Stock is paid with Tendered Restricted Stock, and if the Committee determines that the restricted Stock acquired on exercise of the Option shall be subject to restrictions ("Greater Restrictions") that cause it to have a greater risk of forfeiture than the Tendered Restricted Stock, then notwithstanding the preceding sentence, all the restricted Stock acquired on exercise of the Option shall be subject to such Greater Restrictions.

Shares of unrestricted Stock acquired by a Holder on exercise of an Option shall be delivered to the Holder or, at the request of the Holder, shall be credited directly to a brokerage account specified by the Holder.

(b) Exercise of Stock Appreciation Rights. Subject to Article 4(c)(vii), 11 and 12 and such terms and conditions as the Committee may impose, each stock appreciation right shall be exercisable not earlier than the first anniversary of the Grant Date of such stock appreciation right and, if such stock appreciation right is identified with an Option, to the extent such Option may be exercised unless otherwise provided by the Committee, Stock appreciation rights shall be exercised by delivery to the Company of written notice of intent to exercise a specific number of stock appreciation rights. Unless otherwise provided in the applicable Award Agreement, the exercise of stock appreciation rights which are identified with shares subject to an Option shall result in the forfeiture of such Option to the extent of such exercise.

The benefit for each stock appreciation right exercised shall be equal to the excess, if any, of

(i) the Fair Market Value of a share of Stock on the date of such exercise, over

(ii) an amount equal to

(A) in the case of a stock appreciation right identified with a share of Stock subject to an Option, the Option Price of such Option, unless the Committee in the grant of the stock appreciation right specified a higher amount, or

(B) in the case of any other stock appreciation right, the Fair Market Value of a share of Stock on the Grant Date of such stock appreciation right, unless the Committee in the grant of the stock appreciation right specified a higher amount;

provided that the Committee, in its discretion, may provide that the benefit for any stock appreciation right shall not exceed a maximum amount (i.e. a cap) set by Committee, which cap may be expressed as (i) a percentage of the excess amount described above (not to exceed 100%), (ii) a percentage of the Fair Market Value of a share of Stock on the Grant Date of the stock appreciation right, or (iii) a fixed dollar amount. The benefit upon the exercise of a stock appreciation right shall be payable in cash, except that the Committee, with respect to any particular exercise, may, in its discretion, pay benefits wholly or partly in Stock delivered to the Holder or credited to a brokerage account specified by the Holder.

(c) Exercise of Performance Units.

(i) Subject to Article 4(c)(vii), 11 and 12 and such terms and conditions as the Committee may impose, and unless otherwise provided in the applicable Award Agreement, if, with respect to any performance unit, the minimum Performance Goals have been achieved during the applicable Measuring Period, then such performance unit shall be deemed exercised on the date on which it first becomes exercisable.

(ii) The benefit for each performance unit exercised shall be an amount equal to the product of

(A) The Unit Value (as defined below), multiplied by

(B) the Performance Percentage attained during the Measuring Period for such performance unit.

(iii) The Unit Value shall be, as specified by the Committee,

(A) a dollar amount,

(B) an amount equal to the Fair Market Value of a share of Stock on the Grant Date,

(C) an amount equal to the Fair Market Value of a share of Stock on the exercise date of the performance unit, plus, if so provided in the Award Agreement, an amount ("Dividend Equivalent Amount") equal to the Fair Market Value of the number of shares of Stock that would have been purchased if each dividend paid on a share of Stock on or after the Grant Date and on or before the exercise date were invested in shares of Stock at a purchase price equal to its Fair Market Value on the respective dividend payment date, or

(D) an amount equal to the Fair Market Value of a share of Stock on the exercise date of the performance unit (plus, if so specified in the Award Agreement, a Dividend Equivalent Amount), reduced by the Fair Market Value of a share of Stock on the Grant Date of the performance unit.

(iv) The benefit upon the exercise of a performance unit shall be payable to the Holder (or at the request of the Holder, deliver to a brokerage account specified by the Holder), as soon as is administratively practicable (but in any event within 90 days) after the later of (A) the date the Holder is deemed to exercise such performance unit, or (B) the date (or dates in the event of installment payments) as provided in the applicable Award Agreement. Such benefit shall be payable in cash, except that the Committee, with respect to any particular exercise, may, provide in the Award Agreement that benefits may be paid wholly or partly in Stock. The number of shares of Stock payable in lieu of cash shall be determined by valuing the Stock at its Fair Market Value on the business day next preceding the date such benefit is to be paid.

(d) Payment of Performance Shares. Subject to Article 4(c)(vii), 11 and 12 and such terms and conditions as the Committee may impose, and unless otherwise provided in the applicable Award Agreement, if the minimum Performance Goals specified by the Committee with respect to an Award of performance shares have been achieved during the applicable Measuring Period, then the Company shall pay to the Holder of such Award (or, at the request of the Holder, deliver to a brokerage account specified by the Holder) shares of Stock equal in number to the product of the number of the performance share(s) specified in the applicable Award Agreement multiplied by the Performance Percentage achieved during such Measuring Period, except to the extent that the Committee in its discretion determines that cash be paid in lieu of some or all of such shares of Stock. The amount of cash payable in lieu of a share of Stock shall be determined by valuing such share at its Fair Market Value on the business day next preceding the date such cash is to be paid. Payment pursuant to this Article 8(d) shall be made as soon as administratively practicable (but in any event within 90 days) after the end of the applicable Measuring Period. Any performance shares with respect to which the Performance Goals have not been achieved by the end of the applicable Measuring Period shall expire.

(e) Payment of Phantom Stock Awards. Upon the vesting of a phantom stock Award, the Holder shall be entitled to receive a cash payment in respect of each share of phantom stock which shall be equal to the Fair Market Value of a share of Stock as of the date the phantom stock Award was granted, or such other date as determined by the committee at the time the phantom stock Award was granted. The Committee may at the time a phantom stock Award is granted, provide a limitation on the amount payable in respect of each share of phantom stock.

(f) Full Vesting upon Change of Control. In the event of a Change of Control, all unvested Awards shall become immediately vested and exercisable; provided that the benefit payable with respect to any performance unit of performance share with respect to which the Measuring Period has not ended as of the date of such Change of Control shall be equal to the product of the Unit Value multiplied successively by each of the following:

(1) a fraction, the numerator of which is the number of months (including as a whole month any partial month) that have elapsed since the beginning of such Measuring Period until the date of such Change of Control and the denominator of which is the number of months (including as a whole month any partial month) in the Measuring Period; and

(2) a percentage equal to the greater of the target percentage, if any, specified in the applicable Award Agreement or the maximum percentage, if any, that would be earned under the terms of the applicable Award Agreement assuming that the rate at which the performance goals have been achieved as of the date of such Change of Control would continue until the end of the Measuring Period.

(g) Pooling of Interests. If the Committee in its discretion determines that the exercise of an Award would preclude the use of pooling of interests accounting following a sale of the Company which is reasonably likely to occur and that such preclusion of pooling would have a material adverse effect on the sale of the Company, the Committee, in its discretion, may take such action as it deems appropriate in order to preserve the pooling of interests accounting including either unilaterally barring the exercise of such Award by canceling the Award prior to the Change of Control or by causing the Company to pay the Award rights benefit in Stock if it determines that such payment would not cause the transaction to be ineligible for pooling.

(h) Exercise, Cancellation, Expiration or Forfeiture of Tandem Awards. Upon the exercise, cancellation, expiration, forfeiture or payment in respect of any Award which is identified with any other Award (the "Tandem Award") pursuant to Article 6(i), the Tandem Award shall automatically terminate to the extent of the number of shares in respect of which the Award is so exercised, canceled, expired, forfeited or paid, unless otherwise provided by the Committee at the time of grant of the Tandem Award or thereafter.

9. Effect of Certain Transactions. With respect to any Award which relates to Stock, in the event of a merger or consolidation of the Company (a "Transaction"), the Plan and the Awards issued hereunder shall continue in effect in accordance with their respective terms and each Holder shall be entitled to receive in respect of each share of Stock subject to any outstanding Awards, upon the vesting, payment or exercise of the Award (as the case may be), the same number and kind of stock, securities, cash, property, or other consideration that each holder of a share of Stock was entitled to receive in the Transaction in respect of a share of Stock. With respect to any Award which relates to stock, in the event of a liquidation or dissolution of the Company, the Committee may take such actions as it deems appropriate.

10. Mandatory Withholding Taxes. The Company shall have the right to deduct from any distribution of cash to any Holder an amount equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld (the "Withholding Taxes") with respect to any Award. If a Holder is to experience a taxable event in connection with the receipt of shares pursuant to an Option exercise or the vesting or payment of another type of Award (a "Taxable Event"), the Holder shall pay the Withholding Taxes to the Company prior to the issuance, or release from escrow, of such shares or payment of such Award. Payment of the applicable Withholding Taxes may be made, as determined in advance by the Board or the Committee in its discretion, in any one or any combination of (i) cash, (ii) shares of restricted or unrestricted Class A Common Stock or Common Stock owned by the Holder prior to the Taxable Event and valued at its Fair Market Value on the business day immediately preceding the date of exercise, or (iii) by making a Tax Election (as described below). For purposes of this Article 10, a Holder may make a written election (the "Tax Election"), to have withheld a portion of the shares then issuable to him or her having an aggregate Fair Market Value, on the date preceding the date of such issuance, equal to the Withholding Taxes.

11. Termination of Employment. The Award Agreement pertaining to each Award shall set forth the terms and conditions applicable to such Award upon a Termination of Employment of the Grantee by the Company, a Subsidiary or an operating division or unit, as the Committee may, in its discretion, determine at the time the Award is granted or thereafter; provided, however, that if a Grantee's employment is terminated as a result of (i) the Grantee's conviction of a felony which is, in the opinion of the Committee, likely to result in injury of a material nature to the Company or a Subsidiary, or (ii) the gross and habitual negligence by the Grantee in the performance of the Grantee's duties to the Company or its Subsidiaries (termination for "Cause"), the Grantee's shares of restricted stock that are forfeitable, subject to the provisions of Article 6(d)(vii) regarding repayment of certain amounts to the Grantee, and any unexercised option, stock appreciation right, performance unit, performance share or share of phantom stock shall thereupon terminate. If a Grantee has transferred an Award pursuant to Article 7, then, upon a Termination of Employment of such Grantee, the terms and conditions applicable to such Award, including the time of its termination, shall be the same as would have applied to the Award if the Grantee had not transferred it.

12. Securities Law Matters.

(a) If the Committee deems it necessary to comply with the Securities Act of 1933, the Committee may require a written investment intent representation by the Holder and may require that a restrictive legend be affixed to certificates for shares of Stock.

(b) If, based upon the opinion of counsel for the Company, the Committee determines that the exercise or non-forfeiture of, or delivery of benefits pursuant to, any Award would violate any applicable provision of (i) federal or state securities law or (ii) the listing requirements of any national securities exchange on which are listed any of the Company's equity securities, then the Committee may postpone any such exercise, non-forfeiture or delivery, as the case may be, but the Company shall use its best efforts to cause such exercise, non-forfeiture or delivery to comply with all such provisions at the earliest practicable date.

(c) Subject to Articles 12(a) and (b) above, no shares of Stock shall be issued to any Holder in respect of any Award prior to the time a registration statement under the Securities Act of 1933 is effective with respect to such shares.

13. No Funding Required. Benefits payable under the Plan to any person shall be paid directly by the Company. The Company shall not be required to fund, or otherwise segregate assets to be used for payment of, benefits under the Plan.

14. No Employment Rights. Neither the establishment of the Plan, nor the granting of any Award shall be construed to (a) give any Grantee the right to remain employed by the Company or any of its Subsidiaries or to any benefits not specifically provided by the Plan or (b) in any manner modify the right of the Company or any of its Subsidiaries to modify, amend, or terminate any of its employee benefit plans.

15. Rights as a Stockholder. A Holder shall not, by reason of any Award (other than restricted Stock), have any right as a stockholder of the Company with respect to the shares of Stock which may be deliverable upon exercise or payment of such Award until such shares have been delivered to him. Shares of restricted Stock held by a Grantee or held in escrow by the Secretary of the Company shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan.

16. Nature of Payments. Any and all grants, payments of cash, or deliveries of shares of Stock hereunder shall constitute special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for the purpose of determining any pension, retirement, death or other benefits under (a) any pension, retirement, profit-sharing, bonus, life insurance or other employee benefit plan of the Company or any of its Subsidiaries or (b) any agreement between the Company or any Subsidiary, on the one hand, and the Grantee, on the other hand, except as such plan or agreement shall otherwise expressly provide.

17. Non-Uniform Determinations. Neither the Committee's nor the Board's determinations under the Plan need be uniform and may be made by the Committee or the Board selectively among persons who receive, or are eligible to receive, Awards (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, to enter into non-uniform and selective Award Agreements as to (a) the identity of the Grantees, (b) the terms and provisions of Awards, and (c) the treatment of Terminations of Employment.

18. Adjustments. In the event of Change in Capitalization, the Committee shall, in its sole discretion, make equitable adjustment of

(a) the aggregate number and class of shares of Stock or other stock or securities available under Article 3,

(b) the number and class of shares of Stock or other stock or securities covered by an Award,

(c) the Option Price applicable to outstanding Options,

(d) the terms of performance unit and performance share grants, and

(e) the Fair Market Value of Stock to be used to determine the amount of the benefit payable upon exercise of stock appreciation rights, performance units, performance shares or phantom stock.

19. Amendment of the Plan. The Board may from time to time in its discretion amend or modify the Plan without the approval of the stockholders of the Company, except as such stockholder approval may be required (a) to retain Incentive Stock Option treatment under Section 422 of the Internal Revenue Code or (b) under the listing requirements of any securities exchange on which any of the Company's equity securities are listed.

20. Termination of the Plan. The Plan shall terminate on the tenth (10th) anniversary of the Effective Date or at such earlier time as the Board may determine. Any termination, shall not affect any Award then outstanding under the Plan.

21. No Illegal Transactions. The Plan and all Awards granted pursuant to it are subject to all laws and regulations of any governmental authority which may be applicable thereto; and notwithstanding any provision of the Plan or any Award, Holders shall not be entitled to exercise Awards or receive the benefits thereof and the Company shall not be obligated to deliver any Stock or pay any benefits to a Holder if such exercise, delivery, receipt or payment of benefits would constitute a violation by the Holder or the Company of any provision of any such law or regulation.

22. Governing Law. Except where preempted by federal law, the law of the State of Delaware shall be controlling in all matters relating to the Plan, without giving effect to the conflicts of law principles thereof.

23. Severability. If all or any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of the Plan not declared to be unlawful or invalid. Any Article or part of an Article so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Article or part of an Article to the fullest extent possible while remaining lawful and valid.

## EXHIBIT 11

## OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES

## Computation of Earnings per Share

	1997 -----	1996 -----	1995 -----	1994 -----	1993 -----
Average number of shares outstanding during the year	6,595,782	6,806,448	6,931,726	6,990,435	6,994,942
Options exercisable, less shares that could have been purchased based on the average market value for the period	3,314	443	4,429	20,289	36,174
Average number of common and common equivalent shares outstanding during the year (a)	6,599,096	6,806,891	6,935,975	7,010,724	7,031,116
Net earnings	\$6,793,473	\$3,374,257	\$8,002,828	\$9,852,200	\$9,419,642
Net earnings per share	\$ 1.03	\$ 0.50	\$ 1.15	\$ 1.41	\$ 1.34

(a) Does not include options which are not dilutive. Effect under fully diluted computations is not material.



## EXHIBIT 13

## FINANCIAL HIGHLIGHTS

	1997 -----	1996 -----	Change -----
Net Sales	\$ 156,616,350	\$ 153,786,754	+1.8%
Income from Operations	\$ 10,668,852	\$ 5,983,473	+78.3%
Income before Income Taxes	\$ 9,514,265	\$ 4,783,402	+98.9%
Net Income	\$ 6,793,473	\$ 3,374,257	+101.3%
Net Income per Share	\$ 1.03	\$ 0.50	+106.0%
Net Income as a Percentage of Sales	4.3%	2.2%	-
Return on Average Stockholders' Equity	8.8%	4.3%	-
Working Capital	\$ 31,165,394	\$ 30,398,649	+2.5%
Stockholders' Equity	\$ 77,330,301	\$ 77,229,496	+0.1%
Book Value per Share	\$ 12.03	\$ 11.46	+5.0%
Average Shares Outstanding	6,599,096	6,806,891	-3.1%
Dividends Declared	\$ 1,935,845	\$ 2,022,205	-4.3%
Capital Expenditures	\$ 5,394,600	\$ 7,184,337	-24.9%
Depreciation and Amortization	\$ 7,587,001	\$ 7,925,806	-4.3%
Long-Term Debt	\$ 17,052,000	\$ 18,978,000	-10.1%

## Sales Trends (millions of dollars)

	1997 -----	1996 -----	1995 -----	1994 -----	1993 -----
Consumer Products	\$ 95.7	\$ 90.5	\$ 91.1	\$ 84.4	\$ 81.7
Industrial and Environmental Products	18.8	20.2	22.2	22.8	22.3
Agricultural Products	18.9	19.9	16.6	18.3	18.4
Fluids Purification Products	15.5	13.6	13.7	14.1	10.8
Transportation Services	7.8	9.6	9.3	7.5	7.7
	-----	-----	-----	-----	-----
	\$156.7	\$153.8	\$152.9	\$147.1	\$140.9
	=====	=====	=====	=====	=====

## Land Holdings &amp; Mineral Reserves

	Owned (acres) -----	Leased (acres) -----	Total (acres) -----	Proven Reserves (1,000s of tons) -----
Georgia	1,484	1,804	3,288	43,395
Mississippi	2,317	1,423	3,740	129,703
Oregon	1,260	1,580	2,840	36,778
Florida	537	446	983	4,512
Nevada	415	4,735	5,150	298,316
Illinois	4	-	4	-
	-----	-----	-----	-----
	6,017	9,988	16,005	512,704
	=====	=====	=====	=====

## TO OUR SHAREHOLDERS

FROM THE CHAIRMAN

Selecting corporate officers and senior management and monitoring their performance are the most important responsibilities of a corporation's board of directors. As chairman, I would like to discuss the importance of the transition in leadership that has taken place at Oil-Dri in recent years culminating in August 1997 with Dan Jaffee accepting the additional responsibilities of chief executive officer.

Oil-Dri and the Jaffee family have been linked throughout the Company's 56 year history. My father founded the Company in 1941. I became chief executive officer in 1960, and in 1995 Dan Jaffee became president and chief operating officer.

At various times the board of directors has discussed whether family management of the business is in the best interest of all its shareholders or whether the CEO and other senior managers should be sought elsewhere. Based on the transition in management during the last several years and the excellent performance during this past fiscal year, the board and I are confident that Dan's acceptance of the leadership of the Company is in the best interest of all of our shareholders.

In the ten years since joining Oil-Dri, Dan has worked his way up through the ranks of the Company. He has clearly demonstrated the leadership skills needed to grow the business in a challenging and changing external environment. He and his team have made Cat's Pride(r) cat litter products the market's fastest growing - in spite of increased competition. This, combined with the progress we have enjoyed in our specialties businesses, leads me to be very optimistic about the future.

The team of experienced and energetic management that Dan has put in the most critical areas of the business are the best assurance that we as shareholders can have that Oil-Dri will be ably led and profitably managed.

I very much appreciate the support I've received from our shareholders in the past. I know that you will lend the same encouragement to Dan and his team. Going forward, I will be directly involved in several areas of the business and hope to lend advisory assistance where my experience can be of most help. I have never felt better about Oil-Dri's prospects than I do today. The future will certainly be challenging, but we have great strengths in our resources, technology, marketing and sales capabilities and, most of all, in the management team that will be led by Dan Jaffee as chief executive officer.

Sincerely,

RICHARD M. JAFFEE  
Chairman

## FROM THE PRESIDENT

July 31, 1997 marked the end of Oil-Dri's 56th year in business and my second as president and chief operating officer. In last year's president's letter, I spoke of building teams, brands and profits that would combine to increase shareholder value. I also harkened back to the glory days of Oil-Dri's historic growth. Fiscal 1997 is particularly gratifying because we have delivered on our goals and are back on a growth track. Our stock began the fiscal year at \$14.25 per share and closed twelve months later at \$17.56, up 23%. This created nearly \$21 million in additional shareholder value during the period.

A 101% increase in earnings and tight control of capital expenditures allowed us to repurchase 307,000 shares for \$4,883,000, pay \$1,961,000 in dividends, reduce long-term debt by \$1,628,000 and still finish the year with \$11,541,000 in cash and investments. We controlled marketing expenditures related to the launch of the Cat's Pride(r) Scoopable "Stretch Jug" and Cat's Pride(r) KatKit(r) and saw our dollar share of the branded cat litter category climb 10%. Total company sales grew 2% to \$156,616,000.

## REDEFINING OUR MISSION

During the year, Oil-Dri's senior management team built a new five-year growth plan. We enter fiscal 1998 with a unified vision regarding where we are going and how we are going to get there. The planning process began by redefining our corporate mission statement which now reads:

DELIVERING INNOVATIVE SOLUTIONS THAT HELP OUR CUSTOMERS  
MAKE THE WORLD CLEANER, SAFER AND HEALTHIER

It sounds lofty, but it is true. Whether it's a consumer's home, an industrial workplace, a farmer's crops or livestock, or a refiner's oils, Oil-Dri products help make them all cleaner, safer and healthier. This mission statement will serve as one of the screens used to identify growth opportunities best fitting with our core strengths while broadening some of the traditional definitions used for our business.

## EXTENDING OUR REACH

Growth opportunities will be driven by the marketplace. Leveraging relationships with current customers, we can deliver more of what they need. For example, we can deliver pet products to our consumer products customers, not just cat litter. Similarly, we are developing a broad range of agricultural products. We are not limited to supplying crop protection chemical carriers. This same approach will be applied to our fluids purification and industrial businesses.

Future innovations for these markets may be products or services. They may come from our existing raw materials or new sources. Through innovation we will create value for our customers and capture some of that value for Oil-Dri and our shareholders.

There are also numerous international opportunities. While we already do business in over sixty countries, we can increase all of our businesses globally, with special emphasis on fluids purification adsorbents and agricultural products.

Our strategic plans focus on extending our reach with new products, new markets and new territories. On the ensuing pages, you will get a glimpse of the growth strategies for each of our four core businesses.

I once heard a quote that I have never forgotten, "If you don't know where you are going, any road will take you there." We, on the other hand, know where we want to go, and, while a well-crafted, carefully executed roadmap to the future may not guarantee our arrival, I know our chances are infinitely greater than if we just got in the car and started to drive.

I am proud of what we have accomplished so far and even more excited about what the future has to offer. As we begin a new year and I take on the responsibilities of chief executive officer, I would like to thank you, our shareholders, for your support. We are continually striving to make your investment in Oil-Dri more valuable.

DANIEL S. JAFFEE  
President and Chief Executive Officer

CONSUMER  
PRODUCTS

Oil-Dri manufactures approximately 25% of the cat litter products sold in the United States including branded and private label products. Cat litter products now represent 62% of net sales. By developing innovative, branded products that help consumers keep their homes clean and odor free, Oil-Dri gained more market share than any other competitor over the last two years to become the fastest growing cat litter manufacturer.\*

What we want to be in the future is a leading supplier of quality pet products. To attain this goal we will continue the product innovation that has built branded market share, increased distribution and established our track record with retailers and consumers.

Our consumers are pet lovers that want quality and value. We deliver both through innovation. The Cat's Pride(r) Scoopable "Stretch Jug" delivers 40% more product to consumers every day at about the same price as the leading competitor. Cat's Pride(r) KatKit(r) and KatKit(r) Jumbo, disposable cat litter trays with litter inside, free consumers from ever cleaning the cat box again. Cat's Pride(r) Heavy Traffic™ Scoopable cat litter has a harder, faster clumping formula for homes with more than one cat or heavy traffic in the litter box.

These products and the rest of the Cat's Pride(r), Lasting Pride(r) and Saular(r) brand families are sold through the finest retailers in North America. Oil-Dri's success in serving these retailers will be leveraged when introducing new, branded pet products.

\* As reported by IRI for the 52 weeks ended 8/10/97.

AGRICULTURAL  
PRODUCTS

Agsorb(r) carriers have been helping deliver crop protection chemicals to fields safely and effectively for almost 30 years. Agricultural products, driven by Agsorb(r), represent 12% of net sales.

We plan to extend our reach in the agricultural market by leveraging the qualities of our special mineral reserves. Oil-Dri is developing new products and product advancements for agricultural chemical, animal health and nutrition, sports turf, and lawn and garden markets.

The first example is a new carrier for crop protection applications previously out of our reach. This product promises to reduce formulation costs and increase the efficiencies of crop protection chemicals. This same development has potential in lawn care applications.

In the animal health and nutrition industry, ConditionAde™ applications are expanding. In addition to improving feed pellet quality, field testing has established that it also improves feed mill production rates.

Odor-control products for poultry producers are also in development. By reducing ammonia levels, producers can increase the health of poultry flocks while reducing energy costs associated with ventilating enclosed facilities.

In addition to exploring opportunities available with existing raw materials and product technologies, Oil-Dri is expanding sales geographically. New international markets and the global expansion of existing customers will provide opportunities to increase sales overseas.

FLUIDS  
PURIFICATION

Oil-Dri began to leverage the adsorptive capacity of our mineral reserves when we introduced Ultra-Clear [R]clarification aids to remove impurities from jet fuels. Later, the Pure-Flo(r) line of products was introduced for refining edible oils and oleochemicals. These products have successfully gained market share on a global basis and now represent 9% of net sales.

Future growth in this area will come, in part, from extending our reach geographically. As the specifications for edible oils have become more stringent in Latin America, the Pacific Rim and other developing areas, bleaching clay usage has increased and new markets for Oil-Dri's fluids purification products have opened. This trend is expected to continue, and Oil-Dri is establishing international sales representatives, technical support and customer service to meet the needs of these markets.

Additional growth will come from technical advancement of existing product lines. Companies like ADM, Cargill, Exxon, British Petroleum and many others are using our fluids purification products for only a portion of their needs. Expanded business with these customers represents a significant opportunity, particularly as they increase their global activity.

In addition, identifying niche applications for existing products has been effective. Specialty applications for Pure-Flo(r) products include removing protein impurities from food and recycling cooling oils during metals processing. Continuing along these lines, development or acquisition of new products will create other filtration and purification applications.

INDUSTRIAL AND  
ENVIRONMENTAL

Oil-Dri has been delivering products that keep floors and work surfaces clean and safe since 1941. Today, Oil-Dri(r) floor absorbents and Oil-Dri Lite(r) sorbents represent 12% of net sales. These products have traditionally been sold through a network of small to medium-sized industrial and automotive distributors, as well as mass merchandisers.

This distributor base is undergoing significant change driven by end users. Industrial customers are consolidating their vendors, focusing on services that deliver economies and efficiencies, like Electronic Data Interchange (EDI), Vendor Managed Inventory (VMI) and cost reduction programs. Many large-scale industrial customers are actually outsourcing their purchase functions by forming integrated supply contracts with quality distributors. Oil-Dri is working with this growing segment of the industrial distributor market, offering value-added products, product education and systems support.

On the automotive side of the business, Oil-Dri has historically sold floor absorbents through small to medium-sized automotive distributors or wholesalers that target smaller auto shop owners/operators. Many of these automotive distributors and auto shops are being replaced by larger, national chains. The growth of Oil-Dri(r) product sales in automotive markets will come from expanding the product line and using the systems and logistics we have in place to serve distributors, automotive after-market chains and mass merchandisers.

HISTORICAL  
PERSPECTIVE

## IN 1987...

The United States celebrated the 200th anniversary of the Constitution.

The first treaty that would reduce nuclear arsenals was signed by President Reagan and General Secretary Gorbachev of the U.S.S.R.

Cats surpassed dogs as America's favorite pet.

Irises by Vincent Van Gogh was sold at auction for an unprecedented \$53,900,000.

The single worst day in the history of the NYSE occurred when the Dow Jones Industrial average fell 508 points, a decline of 22.6%.

The tenth anniversary of Elvis Presley's death was marked by the pilgrimage of 20,000 fans to Graceland, his home in Memphis.

## AND AT OIL-DRI...

Sales reached \$59,655,000.

Ultra-Clear(r) products were developed for clarifying petroleum products, specifically jet fuels.

Oil-Dri established a lipids laboratory for further development of Pure-Flo(r) bleaching clays.

Favorite Products, Ltd., a wholly owned subsidiary of Oil-Dri, was marketing Saular(r), the number one selling Canadian cat litter.

The Ripley, Mississippi facility was expanded to handle increased Agsorb(r) product demand and improve manufacturing flexibility.



## FIVE YEAR SUMMARY OF FINANCIAL DATA

	Year Ended July 31				
	1997	1996	1995	1994	1993
<b>SUMMARY OF OPERATIONS</b>					
NET SALES	\$ 156,616,350	\$ 153,786,754	\$ 152,899,109	\$ 147,146,793	\$ 140,866,110
COST OF SALES	108,687,385	107,729,770	108,268,431	102,456,815	97,396,563
GROSS PROFIT	47,928,965	46,056,984	44,630,678	44,689,978	43,469,547
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	37,260,113	40,073,511	31,920,779	30,393,702	29,552,630
INCOME FROM OPERATIONS	10,668,852	5,983,473	12,709,899	14,296,276	13,916,917
<b>OTHER INCOME (EXPENSE)</b>					
Interest Income	636,695	586,623	448,268	440,796	451,519
Interest Expense	(1,774,509)	(1,916,569)	(1,921,261)	(1,751,839)	(1,728,817)
Foreign Exchange Gains (Losses)	191	(6,693)	(5,463)	3,009	(87,655)
Other, Net	(16,964)	136,568	(84,018)	171,142	(298,485)
Total Other Expense, Net	(1,154,587)	(1,200,071)	(1,562,474)	(1,136,892)	(1,663,438)
INCOME BEFORE INCOME TAXES	9,514,265	4,783,402	11,147,425	13,159,384	12,253,479
INCOME TAXES	2,720,792	1,409,145	3,144,597	3,307,184	2,833,837
NET INCOME	\$ 6,793,473	\$ 3,374,257	\$ 8,002,828	\$ 9,852,200	\$ 9,419,642
<b>AVERAGE SHARES OUTSTANDING</b>					
	6,599,096	6,806,891	6,935,975	7,010,724	7,031,116
NET INCOME PER SHARE	\$ 1.03	\$ 0.50	\$ 1.15	\$ 1.41	\$ 1.34
<b>IMPORTANT HIGHLIGHTS</b>					
Total Assets	\$ 114,558,284	\$ 117,692,868	\$ 116,987,683	\$ 112,267,182	\$102,116,632
Long-Term Debt	\$ 17,052,000	\$ 18,978,000	\$ 20,422,265	\$ 21,521,243	\$ 17,765,941
Working Capital	\$ 31,165,394	\$ 30,398,649	\$ 33,074,318	\$ 29,337,449	\$ 26,043,415
Working Capital Ratio	3.0	2.7	3.1	3.0	2.7
Dividends Declared	\$ 1,935,845	\$ 2,022,205	\$ 2,046,644	\$ 1,806,736	\$ 1,678,894
Capital Expenditures	\$ 5,394,600	\$ 7,184,337	\$ 7,032,064	\$ 13,559,232	\$ 9,158,173
Depreciation and Amortization	\$ 7,587,001	\$ 7,925,806	\$ 7,808,496	\$ 6,798,038	\$ 5,834,854
Long-Term Debt to Equity Ratio	22.1%	24.6%	26.1%	29.5%	26.7%
Net Income as a Percent of Net Sales	4.3%	2.2%	5.2%	6.7%	6.7%
Return on Average Stockholders' Equity	8.8%	4.3%	10.6%	14.1%	14.9%
Gross Profit as a Percent of Net Sales	30.6%	29.9%	29.2%	30.4%	30.9%
Operating Expenses as a Percent of Net Sales	23.8%	26.1%	20.9%	20.7%	21.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

Consolidated net sales for the year ended July 31, 1997, were \$156,616,000, an increase of 1.8% over net sales of \$153,787,000 in fiscal 1996. Net income for fiscal 1997 was \$6,793,000 or \$1.03 per share, an increase of 101.3% from \$3,374,000 or \$0.50 per share earned in fiscal 1996.

Net sales of cat box absorbents increased \$5,773,000 or 6.4% over prior year amounts, even though such sales to Sam's Club were down approximately \$4,100,000 from the prior year. The growth resulted from increased sales of branded and private label products in both the grocery and mass merchandiser markets. Net sales of fluids purification products increased \$2,065,000 or 15.2% from fiscal 1996, due to increased demand for Pure-Flo(r) Supreme products. Agricultural product sales decreased \$897,000 or 4.5% compared to fiscal 1996, primarily due to reduced demand in the industry for agricultural carriers. Net sales of industrial and environmental sorbents decreased \$1,246,000 or 6.2% from prior year levels. The decrease was due to an internal focus on profitability versus sales growth as well as open positions in the sales force responsible for these products during the first quarter. Net sales of transportation services decreased \$1,464,000 or 15.8% from fiscal 1996 due to lower backhaul revenue resulting from a reduction in the Company's fleet.

Consolidated gross profit as a percentage of net sales for fiscal 1997 increased to 30.6% from 29.9% in fiscal 1996. Changes in sales mix and a Company-wide effort to reduce costs contributed to this increase.

Operating expenses as a percentage of net sales decreased to 23.8% for fiscal 1997 from 26.1% in fiscal 1996. This decrease is primarily attributable to lower advertising and promotion costs for the consumer products introduced last year and a one-time charge in the second quarter of fiscal 1996 of \$921,000, reflecting settlement costs and legal fees related to patent litigation.

Interest expense decreased \$142,000 while interest income increased \$50,000. The lower interest expense is primarily due to reduced notes payable balances. The Company's effective tax rate decreased to 28.6% of pre-tax income in fiscal 1997 from 29.5% in fiscal 1996 due to higher domestic income subject to depletion allowances.

Total assets of the Company decreased \$3,135,000 or 2.7% during the year ended July 31, 1997. Current assets decreased \$1,300,000 or 2.7% from fiscal 1996 year-end balances primarily due to lower inventory levels. Property, plant and equipment, net of accumulated depreciation, decreased \$2,417,000 during the year due to depreciation expense exceeding capital expenditures. Investments in property, plant and equipment included expenditures for increased productivity and pollution control equipment. Additionally, the Company leased substantial acreage in Nevada containing a mineral reserve for potential development in the future.

As of July 31, 1997, the Company has invested approximately \$752,000 in Kamterter, Inc., a company that researches and applies biotechnology in the agricultural field. This investment, recorded at cost, represents a 13% equity interest in Kamterter. During the year ended February 28, 1997, and in subsequent interim periods, Kamterter has generated operating profits. While the Company believes that Kamterter's prospects have improved, Kamterter's future financial condition and results of operation cannot be predicted.

Total liabilities decreased \$3,235,000 or 8.0% during the year due primarily to the repayment of long-term debt and a reduction in accounts payable. Current liabilities decreased \$2,067,000 or 11.6% from July 31, 1996 balances, due to a reduction in accounts payable, income taxes payable, and accrued trade promotions and advertising, partially offset by an increase in accrued salaries, wages, and commissions.

#### EXPECTATIONS

The Company anticipates net sales for fiscal 1998 will be higher than the net sales in fiscal 1997. Sales of branded cat box absorbents are expected to increase moderately as existing products and new product introductions gain incremental distribution. However, this sales growth is subject to continuing competition for shelf space in the grocery, mass merchandiser and club markets. Sales of the Company's fluids purification and agricultural products are also expected to increase compared to fiscal 1997 due to strong export demand, expanded domestic distribution and new product development.

The foregoing statements under this heading are "forward-looking statements" within the meaning of that term in the Securities Exchange Act of 1934, as amended. Actual results may be lower than those reflected in these forward-looking statements, due primarily to continued vigorous competition in the grocery, mass merchandiser and club markets, the level of success of new products, and the cost of product introductions and promotions in the consumer market. These forward-looking statements also involve the risk of changes in market conditions in the overall economy and, for the agricultural and fluids purification markets, in planting activity, crop quality, and overall agricultural demand, including export demand and foreign exchange rate fluctuations. Other factors affecting these forward-looking statements may be detailed from time to time in reports filed with the Securities and Exchange Commission.

#### LIQUIDITY AND CAPITAL RESOURCES

The current ratio increased to 3.0 at July 31, 1997 from 2.7 at July 31, 1996. Working capital increased \$767,000 during fiscal 1997 to \$31,165,000. Cash provided by operations continues to be the Company's primary source of funds to finance investing and financing activities. During the year, the balances of cash, cash equivalents and investment securities decreased \$167,000. Cash provided by operating activities of \$13,189,000 was used to fund capital expenditures

(\$5,395,000), purchase the Company's Common Stock (\$4,883,000), pay dividends (\$1,961,000) and reduce debt (\$1,628,000). On August 1, 1997, the Company purchased an additional \$2,606,000 of the Company's Common Stock, and expects to continue to purchase shares of its Common Stock from time to time. Total cash and investment balances held by the Company's foreign subsidiaries at July 31, 1997 and July 31, 1996 were \$2,803,000 and \$2,594,000, respectively.

#### RESULTS OF OPERATIONS

##### FISCAL 1996 COMPARED TO FISCAL 1995

Consolidated net sales for the year ended July 31, 1996, were \$153,787,000, an increase of 0.6% over net sales of \$152,899,000 in fiscal 1995. Net income for fiscal 1996 was \$3,374,000 or \$0.50 per share, decreasing 57.8% from net income of \$8,003,000 or \$1.15 per share in fiscal 1995.

Net sales of industrial and environmental sorbents, consisting of clay and non-clay products, decreased \$1,615,000 or 8.6% from prior year levels due to decreased unit shipments of both clay and non-clay products. Net sales of industrial clay products fell \$557,000 or 4.2% from prior year levels. Net sales of non-clay sorbents decreased \$1,058,000 or 19.8%, reflecting increased competition in the markets in which the Company participates and a refocused sales and marketing effort towards higher margin products. Net sales of cat box absorbents decreased \$363,000 or 0.5% below fiscal 1995 levels. Although the Company expanded dollar share in the grocery and mass merchandiser markets, these market share gains were offset by the decline in sales to the Company's largest club account, Sam's Club, which introduced a private label scoopable litter that replaced the Company's branded scoopable product in a substantial number of Sam's stores. The Company's branded cat litter products were reintroduced into Sam's stores during the fourth quarter of fiscal 1996. Net sales of agricultural carriers and absorbents increased \$3,257,000 or 19.6% from the prior fiscal year due to increased unit shipments resulting from increased planting acreage. Net sales of fluids purification adsorbents decreased \$362,000 or 3.0% from fiscal 1995 due primarily to competitive pressures and continued sluggish demand in certain of the Company's markets. Sales of transportation services increased \$357,000 or 3.8% from fiscal 1995 levels due to increased backhaul revenue.

Consolidated gross profit as a percentage of net sales increased to 29.9% of net sales in fiscal 1996 from 29.2% in fiscal 1995. This increase was principally due to a greater portion of net sales being generated in the agricultural market and net sales of higher value products in the grocery market. Additionally, cost increases for packaging and fuel in fiscal 1995 moderated in fiscal 1996.

Operating expenses as a percentage of net sales increased to 26.1% of net sales in fiscal 1996 from 20.9% of net sales in fiscal 1995. This increase included \$6,500,000 for promotional and advertising programs associated with new product introductions. Also included in operating expenses is a charge of \$921,000 reflecting the settlement of a patent infringement action in the second quarter of fiscal 1996.

Interest expense remained unchanged in fiscal 1996. Increased interest-bearing deferred compensation balances offset reductions in the balance of current and long-term notes payable. Interest income increased \$138,000 from fiscal 1995 due to higher invested balances.

The Company's effective income tax rate increased to 29.5% in fiscal 1996 from 28.2% in the prior fiscal year. This change was the result of two factors: lower domestic income subject to depletion allowances and a greater percentage of total income earned in higher tax jurisdictions. The provision for income tax expense for the fourth quarter and year ended July 31, 1995 included a charge of \$263,000 reflecting a change in the estimated amounts of depletion deductions and temporary differences between financial reporting and tax reporting for the year ended July 31, 1994.

Total assets of the Company increased \$705,000 or 0.6% during the year ended July 31, 1996. Current assets decreased \$535,000 or 1.1% from prior fiscal year-end balances due to lower accounts receivable and prepaid income taxes.

Property, plant and equipment, net of accumulated depreciation and amortization, decreased \$1,247,000 or 2.1% due primarily to depreciation expense exceeding capital expenditures by \$563,000 and the sale of fixed assets with a net book value totaling \$646,000. Investments in property, plant and equipment included expenditures for increased productivity, capacity enhancements, pollution control and equipment upgrades.

As of July 31, 1996, the Company had invested approximately \$752,000 in Kamterter, Inc., a company that researches and applies biotechnology in the agricultural field. This investment, recorded at cost, represented a 13% equity interest in Kamterter.

Total liabilities increased \$1,814,000 or 4.7% in the year ended July 31, 1996 due primarily to increased accounts payable, deferred compensation and income taxes payable.

#### FOREIGN OPERATIONS

Net sales by the Company's foreign subsidiaries during fiscal 1997 were \$12,000,000 or 7.7% of total Company sales. This represents an increase of \$113,000 from fiscal 1996, in which foreign subsidiary sales were \$11,887,000 or 7.7% of total Company sales. Net income of the foreign subsidiaries for fiscal 1997 was \$556,000 compared with \$554,000 in fiscal 1996. Identifiable assets of the Company's foreign subsidiaries as of July 31, 1997 were \$9,866,000, an increase of \$830,000 from \$9,036,000 as of July 31, 1996. The increase is primarily due to higher current assets.

Net sales by foreign subsidiaries during fiscal 1996 were \$11,887,000 constituting 7.7% of net sales. This amount represents a decrease of \$361,000 from fiscal 1995, in which foreign net sales were \$12,248,000 and constituted 8.0% of net sales. The decrease in foreign subsidiary sales resulted primarily from reduced sales in the United Kingdom due to lower demand for the Company's animal nutrition products. Net income of the Company's foreign subsidiaries during fiscal 1996 was \$554,000, as compared with \$763,000 in fiscal 1995. Identifiable assets of the Company's foreign subsidiaries as of July 31, 1996, were \$9,036,000, a decrease of \$535,000 from fiscal 1995 year-end balances.

## CONSOLIDATED BALANCE SHEETS

	JULY 31	
	1997	1996
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents.....	\$ 9,996,952	\$ 10,113,544
Investment securities.....	1,544,000	1,594,000
Accounts receivable, less allowance of \$260,530 in 1997 and \$225,970 in 1996.....	20,080,176	20,440,653
Inventories.....	10,604,272	11,737,068
Prepaid expenses.....	4,685,017	4,325,061
Total Current Assets.....	46,910,417	48,210,326
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST</b>		
Buildings and leasehold improvements.....	16,962,647	15,666,801
Machinery and equipment.....	81,580,493	78,918,785
Office furniture and equipment.....	8,742,449	8,181,596
Vehicles.....	95,315	119,622
Total.....	107,380,904	102,886,804
Less accumulated depreciation and amortization.....	( 58,737,021)	( 54,730,624)
Construction in progress.....	48,643,883	48,156,180
Land.....	839,857	4,024,354
	6,312,101	6,031,888
Total Property, Plant and Equipment, Net	55,795,841	58,212,422
<b>OTHER ASSETS</b>		
Goodwill (Net of accumulated amortization of \$1,337,224 in 1997 and \$1,205,164 in 1996).....	4,040,466	4,172,526
Deferred income taxes.....	2,445,657	2,264,291
Other.....	5,365,903	4,833,303
Total Other Assets.....	11,852,026	11,270,120
Total Assets	\$ 114,558,284	\$ 117,692,868

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

	JULY 31	
	----- 1997 -----	----- 1996 -----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of notes payable	\$ 1,945,630	\$ 1,626,762
Accounts payable	4,049,807	5,338,787
Income taxes payable	-	691,106
Dividends payable	475,030	519,610
Accrued expenses		
Salaries, wages and commissions	3,177,756	1,970,422
Trade promotions and advertising	2,902,090	4,188,756
Freight	553,646	711,513
Other	2,641,064	2,764,721
	-----	-----
Total Current Liabilities	15,745,023	17,811,677
	-----	-----
NONCURRENT LIABILITIES		
Notes payable	17,052,000	18,978,000
Deferred compensation	2,749,794	2,253,313
Other	1,681,166	1,420,382
	-----	-----
Total Noncurrent Liabilities	21,482,960	22,651,695
	-----	-----
Total Liabilities	37,227,983	40,463,372
	-----	-----
Stockholders' Equity		
Common and Class B Stock	723,552	723,552
Paid-in capital in excess of par value	7,686,100	7,684,444
Restricted unearned stock compensation	( 17,630)	( 23,844)
Retained earnings	82,243,142	77,385,514
Cumulative translation adjustments	(907,006)	(1,018,416)
	-----	-----
	89,728,158	84,751,250
Less treasury stock, at cost	(12,397,857)	(7,521,754)
	-----	-----
Total Stockholders' Equity	77,330,301	77,229,496
	-----	-----
Total Liabilities and Stockholders' Equity	\$114,558,284	\$117,692,868
	=====	=====

## CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED JULY 31		
	1997	1996	1995
NET SALES	\$ 156,616,350	\$153,786,754	\$152,899,109
COST OF SALES	108,687,385	107,729,770	108,268,431
GROSS PROFIT	47,928,965	46,056,984	44,630,678
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	37,260,113	40,073,511	31,920,779
INCOME FROM OPERATIONS	10,668,852	5,983,473	12,709,899
OTHER INCOME (EXPENSE)			
Interest income	636,695	586,623	448,268
Interest expense	(1,774,509)	( 1,916,569)	( 1,921,261)
Foreign exchange gains (losses)	191	( 6,693)	( 5,463)
Other, net	( 16,964)	136,568	( 84,018)
Total Other Expense, Net	(1,154,587)	( 1,200,071)	( 1,562,474)
INCOME BEFORE INCOME TAXES	9,514,265	4,783,402	11,147,425
INCOME TAXES	2,720,792	1,409,145	3,144,597
NET INCOME	\$ 6,793,473	\$ 3,374,257	\$ 8,002,828
AVERAGE SHARES OUTSTANDING	6,599,096	6,806,891	6,935,975
NET INCOME PER SHARE	\$ 1.03	\$ 0.50	\$ 1.15

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



## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Stock			Paid-In Capital In Excess of Par Value	Restricted Unearned Stock Compensation	Retained Earnings
	Shares		Amount			
	Common	Class B				
BALANCE, JULY 31, 1994	5,100,623	2,132,895	\$723,352	\$7,657,394	\$ -	\$ 70,077,278
Net income	-	-	-	-	-	8,002,828
Dividends declared	-	-	-	-	-	(2,046,644)
Conversion of Class B Stock to Common Stock	18,201	(18,201)	-	-	-	-
BALANCE, JULY 31, 1995	5,118,824	2,114,694	723,352	7,657,394	-	76,033,462
Net income	-	-	-	-	-	3,374,257
Dividends declared	-	-	-	-	-	(2,022,205)
Conversion of Class B Stock to Common Stock	72,326	(72,326)	-	-	-	-
Issuance of stock under 1995 Long Term Incentive Plan	2,000	-	200	27,050	(27,250)	-
Amortization of Restricted Common Stock Compensation	-	-	-	-	3,406	-
BALANCE, JULY 31, 1996	5,193,150	2,042,368	723,552	7,684,444	(23,844)	77,385,514
Net income	-	-	-	-	-	6,793,473
Dividends declared	-	-	-	-	-	(1,935,845)
Conversion of Class B Stock to Common Stock	73,980	(73,980)	-	-	-	-
Issuance of stock under 1995 Long Term Incentive Plan	-	-	-	1,656	(8,469)	-
Amortization of Restricted Common Stock Compensation	-	-	-	-	14,683	-
BALANCE, JULY 31, 1997	5,267,130	1,968,388	\$723,552	\$7,686,100	\$(17,630)	\$82,243,142

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JULY 31		
	1997	1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 6,793,473	\$ 3,374,257	\$ 8,002,828
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	7,587,001	7,925,806	7,808,496
Deferred income taxes	(181,366)	(1,791,247)	(575,130)
Provision for bad debts	125,000	202,690	51,013
(Increase) decrease in			
Accounts receivable	235,476	692,363	(1,680,287)
Inventories	1,132,796	(838,308)	319,844
Prepaid expenses and taxes	(382,829)	1,190,548	(1,608,299)
Other assets	(536,993)	(830,161)	(960,720)
Increase (decrease) in			
Accounts payable	(1,288,979)	636,215	774,083
Income taxes payable	(691,123)	456,708	-
Accrued expenses	(360,856)	332,842	(32,319)
Deferred compensation	496,481	475,238	16,257
Other	260,783	642,270	201,428
Total Adjustments	6,395,391	9,094,964	4,314,366
Net Cash Provided by Operating Activities	13,188,864	12,469,221	12,317,194
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(5,394,600)	(7,184,337)	(7,032,064)
Proceeds from sale of property, plant and equipment	555,232	923,437	-
Purchases of investment securities	(350,000)	(167,000)	(3,691,201)
Dispositions of investment securities	400,000	906,283	4,722,543
Other	(141,551)	(267,693)	159,709
Net Cash Used in Investing Activities	(4,930,919)	(5,789,310)	(5,841,013)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal payments on long-term debt	(1,628,410)	(1,145,479)	(1,244,481)
Proceeds from issuance of long-term debt	21,278	230,000	-
Dividends paid	(1,960,893)	(2,015,383)	(1,983,291)
Purchase of treasury stock	(4,882,916)	(2,433,710)	(825,475)
Other	76,404	(31,462)	12,418
Net Cash Used in Financing Activities	(8,374,537)	(5,396,034)	(4,040,829)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(116,592)	1,283,877	2,435,352
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,113,544	8,829,667	6,394,315
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,996,952	\$ 10,113,544	\$ 8,829,667

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

## NOTES TO 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 wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

No provision has been made for possible income taxes which may be paid on the distribution of approximately \$9,870,000 and \$9,796,000 as of July 31, 1997 and 1996, 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.

## MANAGEMENT USE OF ESTIMATES

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

## REVENUE RECOGNITION

Revenues from sales of products and transportation services 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.

## INTEREST RATE DERIVATIVE INSTRUMENTS

An interest rate swap agreement is utilized in the management of interest rate exposure. Interest differentials on the swap contract (Note 3) are recorded as interest expense in the contract period incurred. The Company recognized additional interest expense of \$60,100, \$58,100 and \$58,900 in fiscal years 1997, 1996 and 1995, respectively, as a result of this contract.

## RECLASSIFICATION

Certain items in prior year financial statements have been reclassified to conform to the presentation used in fiscal 1997.

## 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.

Changes in the cumulative translation adjustments account are as follows:

	1997 -----	1996 -----	1995 -----
Balance, at beginning of year	\$(1,018,416)	\$(987,781)	\$(1,135,951)
Translation adjustments resulting from exchange rate changes and intercompany transactions	111,410	(30,635)	148,170
Balance, at end of year	\$ (907,006) =====	\$(1,018,416) =====	\$ (987,781) =====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## CASH EQUIVALENTS

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

## INVENTORIES

The composition of inventories is as follows:

	1997	1996
Finished goods	\$ 6,683,755	\$ 6,728,150
Packaging	3,167,909	3,754,087
Other	752,608	1,254,831
	-----	-----
	\$ 10,604,272	\$ 11,737,068
	=====	=====

Inventories are valued at the lower of cost (first-in, first-out) or market.

## 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 2. 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	3-15
Office furniture and equipment	2-10
Vehicles	2-8

## RESEARCH AND DEVELOPMENT

Research and development costs of \$2,049,000 in 1997, \$2,026,000 in 1996 and \$1,826,000 in 1995, were charged to expense as incurred.

## ACQUISITIONS

The excess of the Company's original investment over the fair value of the net assets acquired at the date of acquisition is being amortized by the straight-line method over 40 years.

## 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 \$3,562,000, \$6,269,000 and \$2,122,000 for the years ended July 31, 1997, 1996 and 1995, respectively. Prepaid advertising production costs at July 31, 1997, 1996 and 1995 were not material.

## 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, 1997. 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, 1997 and 1996 was less than its carrying value by approximately \$720,000 and \$600,000, respectively.

## NET INCOME PER SHARE AND COMMON SHARE EQUIVALENTS

Net income per share and common share equivalents are computed based upon the weighted average number of shares outstanding during each year and include outstanding options, when dilutive.

## NEW ACCOUNTING PRONOUNCEMENT

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 (FAS 128), "Earnings Per Share," effective for financial statements issued after December 15, 1997. The Company intends to adopt FAS 128 in fiscal year 1998. The Company has not determined the financial statement impact of FAS 128.



NOTE 2 - BUSINESS AND GEOGRAPHIC REGION  
INFORMATION

## NATURE OF BUSINESS

The Company is a leader in developing, manufacturing and marketing sorbent products for consumer, industrial, environmental, agricultural and fluids purification markets, and operates within a single segment. The Company has operations in the United States, Canada and the United Kingdom and exports goods worldwide. The Company had net sales in excess of 10% of total net sales to one unaffiliated customer in 1997, 1996 and 1995. Accounts receivable related to this major customer amounted to \$4,736,000, \$4,905,000 and \$5,083,000 as of July 31, 1997, 1996 and 1995, respectively.

The sales to this customer were as follows:

	1997	1996	1995
	(Thousands of Dollars)		
Amount	\$ 37,219	\$ 39,916	\$ 40,884
Percent of net sales	24%	26%	27%

The following is a summary of financial information by geographic region:

	YEAR ENDED JULY 31		
	(Thousands of Dollars)		
	1997	1996	1995
Sales to unaffiliated customers:			
Domestic	\$ 144,616	\$141,900	\$140,651
Foreign subsidiaries	12,000	11,887	12,248
Sales or transfers between geographic areas:			
Domestic	\$ 5,611	\$ 5,039	\$ 4,067
Income before income taxes:			
Domestic	\$ 8,637	\$ 3,920	\$ 10,094
Foreign subsidiaries	877	863	1,053
Net Income:			
Domestic	\$ 6,237	\$ 2,820	\$ 7,240
Foreign subsidiaries	556	554	763
Identifiable assets:			
Domestic	\$ 104,692	\$108,657	\$107,417
Foreign subsidiaries	9,866	9,036	9,571

## NOTE 3 - NOTES PAYABLE

The composition of notes payable is as follows:

	1997	1996
Town of Blue Mountain, Mississippi Principal payable on October 1, 2008. Interest payable monthly at a variable interest rate set weekly based on market conditions for similar instruments. The average rates were 3.91% and 3.98% in fiscal 1997 and fiscal 1996, respectively. Payment of these bonds by the Company is guaranteed by a letter of credit issued by Harris Trust and Savings Bank. In May 1991, the Company entered into a seven-year interest rate swap contract. Under this agreement, the Company receives a floating interest rate based on LIBOR and pays interest at a fixed rate of 6.53%.....	\$ 2,500,000	\$ 2,500,000
Teachers Insurance and Annuity Association of America Payable in annual principal installments on November 15; \$1,800,000 in fiscal 1998; \$1,200,000 in fiscal 2000; \$1,100,000 in fiscal 2001; and \$1,000,000 in fiscal 2002. Interest is payable semiannually at an annual rate of 9.38%.....	5,100,000	6,600,000
Teachers Insurance and Annuity Association of America Payable in annual principal installments on August 15; \$500,000 in fiscal 2002; \$1,000,000 in fiscal 2003; \$2,500,000 in fiscal 2004; and \$2,500,000 in fiscal 2005. Interest is payable semiannually at an annual rate of 7.17%.....	6,500,000	6,500,000
Harris Trust and Savings Bank Payable in annual principal installments on June 20; \$1,950,000 in fiscal 1999; \$900,000 in fiscal 2000; \$650,000 in fiscal years 2001 and 2002; and \$350,000 in fiscal 2003. Interest is payable quarterly at an annual rate of 7.78%.....	4,500,000	4,500,000
Other.....	397,630	504,762
	18,997,630	20,604,762
Less current maturities of notes payable.....	( 1,945,630)	( 1,626,762)
	<u>\$ 17,052,000</u>	<u>\$ 18,978,000</u>

## NOTE 3 - NOTES PAYABLE (Continued)

During fiscal 1995, the Company executed a Credit Agreement with Harris Trust and Savings Bank which replaced the Term Note Agreement dated April 20, 1994. In addition to providing continued term financing, the Credit Agreement provides for a \$5,000,000 committed unsecured revolving line of credit which expires on August 1, 1999, at certain short-term rates. No borrowings were made against this line during fiscal years 1997 and 1996.

The agreements with the Town of Blue Mountain, Mississippi, Teachers Insurance and Annuity Association of America and Harris Trust and Savings Bank impose working capital requirements, dividend and financing limitations, minimum tangible net worth requirements and other restrictions. The Company's 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 25% of cumulative annual earnings from July 31, 1994.

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, 1997:

Year Ending July 31:	
1999 .....	\$ 2,076,000
2000 .....	2,226,000
2001 .....	1,750,000
2002 .....	2,150,000
2003 .....	1,350,000
Later years.....	7,500,000
	-----
	\$ 17,052,000
	=====

## NOTE 4 - INCOME TAXES

The provision for income tax expense consists of the following:

	1997	1996	1995
-----			
Current			
Federal .....	\$ 1,988,007	\$ 2,019,796	\$ 2,756,283
Foreign .....	308,130	332,127	292,664
State .....	606,021	848,469	670,780
	-----	-----	-----
	2,902,158	3,200,392	3,719,727
-----			
Deferred			
Federal .....	34,751	( 799,382)	( 535,093)
Operating loss carryforward .....	( 154,475)	( 644,108)	-
Foreign .....	12,590	( 22,709)	( 2,142)
State .....	( 74,232)	( 325,048)	( 37,895)
	-----	-----	-----
	( 181,366)	(1,791,247)	( 575,130)
-----			
Total Income Tax Provision .....	\$ 2,720,792	\$ 1,409,145	\$ 3,144,597
	=====	=====	=====
-----			



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	1997	1996	1995
U.S. federal statutory income tax rate.....	34.0%	34.0%	34.0%
Depletion deductions allowed for mining.....	( 11.4 )	( 23.4 )	( 12.2 )
State income taxes, net of federal tax benefit.....	5.6	10.9	5.7
Valuation allowance without income tax benefit.....	1.6	12.0	-
Difference in effective tax rate of foreign subsidiaries.....	( 0.1 )	( 0.1 )	( 0.6 )
Other.....	( 1.1 )	( 3.9 )	1.3
	=====	=====	=====
	28.6%	29.5%	28.2%

The consolidated balance sheets as of July 31, 1997 and 1996, included the following tax effects of cumulative temporary differences:

	1997		1996	
	Assets	Liabilities	Assets	Liabilities
Depreciation	\$ -	\$ 1,667,174	\$ -	\$ 1,528,266
Deferred Compensation	1,031,173	-	844,992	-
Postretirement Benefits	473,883	-	356,656	-
Trade Promotions and Advertising	117,445	-	269,200	-
Accrued Expenses	464,282	-	408,986	-
Tax Credits	921,557	-	905,016	-
Operating Loss Carryforward	1,527,874	-	1,219,070	-
Other	306,617	-	363,637	-
	4,842,831	1,667,174	4,367,557	1,528,266
Valuation Allowance	( 730,000)	-	( 575,000)	-
Total Deferred Taxes	\$ 4,112,831	\$ 1,667,174	\$ 3,792,557	\$ 1,528,266
	=====	=====	=====	=====

The valuation allowance represents operating loss carryforwards not anticipated to be utilized. As of July 31, 1997, for federal income tax purposes there were regular tax operating loss carryforwards of approximately \$3,938,000 which begin to expire in the year 2011. A valuation allowance has been established for \$730,000 of the deferred tax benefit related to those loss carryforwards for which it is considered more likely than not the benefit will not be realized. Tax credits of \$921,557 primarily consisting of foreign tax credits expiring in 2001 and later are also being carried forward.

## NOTE 5 - DEFERRED COMPENSATION

In December 1995, the Company adopted the Oil-Dri Corporation of America Deferred Compensation Plan. Deferrals are no longer being made under the original plan, The Oil-Dri Corporation of America Key Employee and Directors Deferred Compensation Plan. The new plan permits Directors and certain management employees to defer portions of their compensation and earn interest on the deferred amounts. The compensation, which has been deferred since the inception of the original plan, has been accrued as well as interest thereon. The Company has purchased life insurance contracts on some participants to partially fund the original plan. The new plan is unfunded.

## NOTE 6 - STOCKHOLDERS' EQUITY

On December 13, 1994, the stockholders of the Company approved an amendment to the Company's Certificate of Incorporation authorizing 30,000,000 shares of a new class of common stock, par value \$.10, which has been designated as Class A Common Stock, in addition to the currently authorized 15,000,000 shares of Common Stock and 7,000,000 shares of Class B Stock, each with a par value of \$.10. 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 3 regarding dividend restrictions.

Shares of Common Stock, Class A Common Stock and Class B Stock are equal in respect of all rights to dividends (other than cash) and distributions in the form of stock or other property (including stock dividends and split-ups) in each case in the same ratio except in the case of a Special Stock Dividend. The Special Stock Dividend, which can be issued only once, is either a dividend of one share of Class A Common Stock for each share of Common Stock and Class B Stock outstanding or a recapitalization, in which half of each outstanding share of Common Stock and Class B Stock would be converted into a half share of Class A Common Stock.

All per share amounts included in the financial statements and notes reflect the dilutive effect of all common share equivalents. See Note 7 for information regarding common share equivalents.

In June 1997, the Board of Directors of the Company authorized the repurchase, from time to time, of up to 400,000 shares of the Company's stock. This authorization, in addition to previous authorizations, totals 1,100,000 shares. As of July 31, 1997, 644,322 shares have been repurchased under these authorizations. On August 1, 1997, the Company purchased an additional 150,000 shares at a cost of \$2,606,250.

The following reflects the changes in treasury stock (Common) over the last three years:

	Shares	Amount
	-----	-----
Balance, July 31, 1994 .....	281,696	\$ 4,262,569
Purchased during fiscal 1995 .....	50,500	825,475
	-----	-----
Balance, July 31, 1995 .....	332,196	5,088,044
Purchased during fiscal 1996 .....	166,871	2,433,710
	-----	-----
Balance, July 31, 1996 .....	499,067	7,521,754
Reissued during fiscal 1997 .....	( 500)	( 6,813)
Purchased during fiscal 1997 .....	306,985	4,882,916
	-----	-----
Balance, July 31, 1997 .....	805,552	\$ 12,397,857
	=====	=====

## 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. The Plan was approved by the stockholders of the Company at the annual meeting on December 12, 1995. All 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 or

publicly traded on a securities exchange when such awards are exercised, the shares awarded would be Common Stock. The Plan provides for various types of awards. Awards of restricted stock were 500 and 2,000 shares during the fiscal years ended July 31, 1997 and 1996, respectively.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7 - STOCK OPTION PLANS (Continued)

A summary of option transactions under the plans follows:

	1988 Option Plan			1995 Option Plan		
	Number of Shares (Weighted Average Option Price)			Number of Shares (Weighted Average Option Price)		
	1997	1996	1995	1997	1996	1995
Outstanding, Beginning of Year	250,909 \$ (18.63)	267,409 \$ (18.66)	138,659 \$ (19.61)	195,000 \$ (14.92)	- -	- -
Granted	- -	- -	197,250 \$ (19.22)	145,375 \$ (14.82)	199,000 \$ (14.93)	- -
Exercised	- -	- -	- -	- -	- -	- -
Canceled/Terminated	52,070 \$ (19.14)	16,500 \$ (19.13)	68,500 \$ (22.21)	16,000 \$ (14.96)	4,000 \$ (15.13)	- -
Outstanding, End of Year	198,839 \$ (18.49)	250,909 \$ (18.63)	267,409 \$ (18.66)	324,375 \$ (14.88)	195,000 \$ (14.92)	- -

  

	Combined Plans		
	Number of Shares (Weighted Average Option Price)		
	1997	1996	1995
Outstanding, Beginning of Year	445,909 \$ (17.00)	267,409 \$ (18.66)	138,659 \$ (19.61)
Granted	145,375 \$ (14.82)	199,000 \$ (14.93)	197,250 \$ (19.22)
Exercised	- -	- -	- -
Canceled/Terminated	68,070 \$ (18.16)	20,500 \$ (18.34)	68,500 \$ (22.21)
Outstanding, End of Year	523,214 \$ (16.21)	445,909 \$ (17.00)	267,409 \$ (18.66)

## NOTE 7 - STOCK OPTION PLANS (Continued)

The Company has reserved 173,125 shares of Common Stock for future grants and issuances under the Oil-Dri Corporation of America 1995 Long Term Incentive Plan.

Exercise prices of the options outstanding under the 1988 Option Plan range between \$15.60 and \$20.00 per share with a weighted average price of \$18.49 per share and a weighted average contractual life of 5.3 years. As of July 31, 1997, 141,388 options were exercisable.

Exercise prices of the options outstanding under the 1995 Long Term Incentive Plan range between \$13.63 and \$15.13 per share with a weighted average exercise price of \$14.88 per share and a weighted average contractual life of 8.6 years. None of these options are exercisable as of July 31, 1997.

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, 1997 and 1996 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:

	1997	1996
Net income as reported	\$ 6,793,473	\$3,374,257
pro forma	\$ 6,651,129	\$3,311,131
Net income per share as reported	\$ 1.03	\$ 0.50
pro forma	\$ 1.01	\$ 0.49

The fair value of issued stock options is estimated on the grant date using the Black-Scholes Option Pricing Method with the following assumptions for the fiscal years ended July 31, 1997 and 1996, respectively: Dividend yields of 2.1% and 2.2%; volatility of 25.7% and 26.0%; risk-free interest rates of 6.0% and 6.2%; and an expected life of 5 years for both years. The weighted average fair value of the options granted was \$4.22 and \$4.28 for the fiscal years ended July 31, 1997 and 1996, respectively. The fair value method of accounting has not been applied for options granted prior to August 1, 1995.

## 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, 1997, 1996 and 1995, consists of the following:

	1997	1996	1995
Service cost	\$ 347,800	\$ 349,232	\$ 326,650
Interest cost on projected benefit obligations	441,708	426,730	384,901
Earnings on plan assets	( 1,892,062)	( 561,276)	( 836,171)
Net amortization and deferral	1,426,826	153,900	495,586
Net pension cost	\$ 324,272	\$ 368,586	\$ 370,966

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

	1997	1996
Actuarial Present Value of Benefit Obligations		
Accumulated Benefit Obligations		
Vested	\$ 4,710,700	\$ 4,329,417
Nonvested	446,765	457,959
Total Accumulated Benefit Obligations	\$ 5,157,465	\$ 4,787,376
Projected Benefit Obligations	\$ 6,565,616	\$ 6,287,994
Plan Assets at Fair Value	7,546,326	5,706,087
Excess (Deficiency) of Plan Assets Over (Under) Projected Benefit Obligations	980,710	( 581,907)
Unrecognized Net Gain	(2,360,522)	( 626,115)
Unrecognized Prior Service Cost	535,050	574,726
Unrecognized Net Excess Plan Assets as of August 1, 1987 Being Recognized Principally Over 21 Years	( 291,176)	( 317,800)
Adjustment Required to Recognize Minimum Liability	-	( 91,161)
Accrued Pension Included in Noncurrent Liabilities - Other	\$ (1,135,938)	\$ (1,042,257)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

Assumptions used in the previous calculations are as follows:

	-----	-----
	1997	1996
	-----	-----
Discount rate.....	7.5%	7.5%
Rate of increase in compensation levels.....	5.0%	5.0%
Long-term expected rate of return on assets.....	8.0%	8.0%

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

For the years ended July 31, 1997, 1996 and 1995, the Company maintained a profit sharing/401(k) savings plan under which the Company matches a portion of employee contributions. The plan is available to essentially all domestic employees who have completed one year of continuous service and are at least 21 years of age. The Company's contributions to this plan, and to similar plans maintained by the Company's foreign subsidiaries, were \$174,667, \$140,967 and \$137,570 for fiscal years 1997, 1996 and 1995, respectively.

## NOTE 9 - CONTINGENT LIABILITIES

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 best can 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 10 - LEASES

The Company's mining operations are conducted on leased or owned property. These leases generally provide the Company with the right to mine as long as the Company continues to pay a minimum monthly rental, which is applied against the per ton royalty when the property is mined. During fiscal 1997, the Company leased 4,735 acres in Nevada for potential future development of a new mineral reserve base.

The Company leases its corporate offices in Chicago, Illinois (20,000 square feet), office and warehouse space in Alpharetta, Georgia (26,000 square feet) and office facilities in Europe. The office space in Chicago is subject to a lease expiring in 2008. The Alpharetta, Georgia lease expires in 2000, and the facilities in Europe are leased on a year-to-year basis.

In addition, the Company leases transportation equipment, including tractor trailers and railcars, 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, 1997:

Year Ending July 31:		
1998.....	\$ 3,095,414	
1999.....	2,432,227	
2000.....	1,653,454	
2001.....	1,296,943	
2002.....	1,029,323	
Later years.....	5,161,476	
	-----	
	\$14,668,837	
	=====	

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:

	-----	-----	-----
	1997	1996	1995
	-----	-----	-----
Transportation equipment.....	\$2,734,000	\$ 3,770,000	\$ 3,439,000
Office facilities.....	382,000	377,000	373,000
Mining properties			
Minimum.....	177,000	168,000	180,000
Contingent.....	361,000	239,000	162,000
Other.....	654,000	688,000	649,000
	-----	-----	-----
	\$4,308,000	\$ 5,242,000	\$ 4,803,000
	=====	=====	=====

## NOTE 11 - OTHER CASH FLOW INFORMATION

Cash payments for interest and income taxes were as follows:

	1997	1996	1995
Interest	\$ 1,557,208	\$ 1,706,424	\$ 1,750,054
Income Taxes	\$ 3,996,586	\$ 1,352,594	\$ 4,013,110

## NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of selected information for 1997 and 1996 is as follows:

	Fiscal 1997 Quarter Ended (Thousands Except Per Share Amounts)				
	Oct. 31	Jan. 31	April 30	July 31	Total
Net Sales	\$ 40,525	\$ 42,792	\$ 36,002	\$ 37,297	\$ 156,616
Gross Profit	12,292	13,635	10,064	11,938	47,929
Net Income	1,930	2,264	1,164	1,435	6,793
Net Income Per Share	\$ 0.29	\$ 0.34	\$ 0.18	\$ 0.22	\$ 1.03

	Fiscal 1996 Quarter Ended (Thousands Except Per Share Amounts)				
	Oct. 31	Jan. 31	April 30	July 31	Total
Net Sales	\$ 39,308	\$ 41,797	\$ 36,427	\$ 36,255	\$ 153,787
Gross Profit	11,659	12,322	11,153	10,923	46,057
Net Income	1,413	477	670	814	3,374
Net Income Per Share	\$ 0.21	\$ 0.07	\$ 0.10	\$ 0.12	\$ 0.50



## 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, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended July 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES as of July 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 1997 in conformity with generally accepted accounting principles.

Blackman Kallick Bartelstein, LLP  
Chicago, Illinois

August 30, 1997

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COMMON STOCK

The following table sets forth the closing high and low prices as quoted on the New York Stock Exchange for the period indicated. The number of holders of record of Common Stock on July 31, 1997 was 1,247. There is no established public trading market for the Class B Stock. The number of holders of record of Class B Stock on July 31, 1997 was 20.

## Dividends

	Amount Per Share	
	Date paid	Common Class B
Quarterly	09/16/96	\$0.08 \$0.06
Quarterly	12/16/96	\$0.08 \$0.06
Quarterly	03/14/97	\$0.08 \$0.06
Quarterly	06/13/97	\$0.08 \$0.06

## Market Prices

Fiscal 1997	Closing Prices	
	High	Low
1st Quarter	15 1/4	13 1/4
2nd Quarter	17 1/8	12 3/4
3rd Quarter	17 3/4	15 1/2
4th Quarter	17 5/8	15 3/8

  

Fiscal 1996	Closing Prices	
	High	Low
1st Quarter	16	14 1/8
2nd Quarter	16 1/8	14
3rd Quarter	16	13 1/4
4th Quarter	14 7/8	12

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BOARD OF DIRECTORS  
OFFICERS  
SENIOR MANAGEMENT

BOARD OF DIRECTORS

Richard M. Jaffee, Chairman  
 Daniel S. Jaffee, President and Chief Executive Officer  
 Robert D. Jaffee, Retired Chairman, Amco Corporation  
 J. Steven Cole, President, Cole & Associates, Chairman, Sav-A-Life Systems, Inc.  
 Arnold W. Donald, Co-President, Ag Sector, Monsanto Life Sciences Company  
 Ronald B. Gordon, Chief Executive Officer, Beiersdorf North America, Inc.  
 Edgar D. Jannotta, Senior Director, William Blair & Company, L.L.C.  
 Joseph C. Miller, Vice Chairman  
 Paul J. Miller, Partner, Sonnenschein Nath & Rosenthal  
 Haydn H. Murray, Professor Emeritus of Geology, Indiana University  
 Allan H. Selig, President, Milwaukee Brewers Baseball Club, Inc., President and  
 Chairman, Selig Executive Leasing, Inc., Chairman of the Executive Council of  
 Major League Baseball

OFFICERS

Richard M. Jaffee, Chairman  
 Daniel S. Jaffee, President and Chief Executive Officer  
 Joseph C. Miller, Vice Chairman  
 Michael L. Goldberg, Executive Vice President and Chief Financial Officer  
 Richard V. Hardin, Group Vice President, Technology  
 Norman B. Gershon, Vice President, International Operations, Managing Director,  
 Oil-Dri S.A.  
 Daniel J. Jones, Vice President, Favorite Products, Ltd.  
 Dennis E. Peterson, President, Oil-Dri Transportation Company  
 Thomas F. Cofsky, Vice President, Logistics, Quality & Service  
 William O. Thompson, Vice President, Manufacturing  
 Donald J. Deegan, Vice President, Corporate Development & Planning  
 Steven M. Levy, Vice President and General Manager, Consumer Products Group  
 Louis T. Bland, Jr., Vice President, Human Resources and Corporate Secretary  
 Richard L. Pietrowski, Treasurer  
 Brian P. Curtis, General Counsel and Assistant Secretary

SENIOR MANAGEMENT

Elwyn J. Allbritton, Vice President, Operational Development  
 Charles M. Boland, General Manager, Agricultural Products Group  
 Wade R. Bradley, General Manager, Industrial & Environmental Group  
 Karen Jaffee Cofsky, Director, Human Resources  
 Sam J. Colello, Director, Information Systems  
 B. Fielden Fraley, General Manager, Fluids Purification Group  
 Fred G. Heivilin, Vice President, Raw Materials Development  
 Heidi M. Jaffee, Corporate Attorney, Assistant Secretary  
 Richard D. Johnsonbaugh, Senior Regional Manager, Manufacturing  
 Kelly A. McGrail, Manager, Corporate Communications  
 V.R. Roskam, Vice President, Agricultural Products Group  
 John McMaster, Western Regional Manager, Manufacturing

## INVESTOR INFORMATION

## CORPORATE HEADQUARTERS

Oil-Dri Corporation of America  
410 North Michigan Avenue, Suite 400  
Chicago, Illinois 60611-4211  
(312) 321-1515

## INVESTOR INQUIRIES

Securities analysts, portfolio managers and representatives of financial institutions seeking information about the corporation should contact Kelly McGrail, manager, Corporate Communications, at the corporate headquarters.

Stockholders with inquiries related to stockholder records, stock transfers, change of ownership, change of address or dividend payments should contact the Company's registrar and transfer agent:

Harris Trust and Savings Bank  
Shareholder Service Department  
311 W. Monroe, 11th Floor  
Post Office Box A-3504  
Chicago, Illinois 60690-9502  
(312) 461-3309

## STOCK LISTING

Oil-Dri Corporation of America's Common Stock is listed under the ticker symbol ODC on the New York Stock Exchange. The corporation's daily trading activity, stock price and dividend information are in the financial sections of most major newspapers.

## ANNUAL MEETING

Oil-Dri Corporation of America will hold its 1997 Annual Meeting of Stockholders on Tuesday, December 9, 1997 at 10:30 a.m. (Local Time) at the Standard Club, 320 South Plymouth Court, Chicago, Illinois.

## INDEPENDENT PUBLIC ACCOUNTANTS

Blackman Kallick Bartelstein, LLP

## LEGAL COUNSEL

Sonnenschein Nath & Rosenthal

## OIL-DRI SUBSIDIARIES

Oil-Dri Corporation of Georgia  
Georgia, U.S.A.

Oil-Dri Production Company  
Mississippi and Oregon, U.S.A.

Oil-Dri U.K. Limited  
Wisbech, United Kingdom

Oil-Dri Transportation Company  
Georgia, U.S.A.

Oil-Dri S.A.  
Coppet, Switzerland

Blue Mountain Production Company  
Mississippi, U.S.A.

Favorite Products Company, Ltd.  
Quebec, Canada

## CREDITS

Cover photograph: FPG International Illustrations: Michael Maydak.

Portrait photographs: Pages 2 and 3: Andy Goodwin.

Produced by: Kelly McGrail, manager, Corporate Communications

Design: Lee Ann Jaffee Design Associates, Inc.

## EXHIBIT 21

## SUBSIDIARIES OF THE COMPANY

Subsidiary -----	State of Country of Incorporation -----
Oil-Dri Corporation of Georgia	Georgia
Oil-Dri Production Company	Mississippi
Oil-Dri Transportation Company	Delaware
Oil-Dri, S.A	Switzerland
Favorite Products Company, Ltd.	Canada
Blue Mountain Production Co.	Mississippi
Oil-Dri (U.K.) Limited	United Kingdom
Ochlocknee Holding Co., S.A	Spain
Ochlocknee Mining Co., S.A	Spain
Oil-Dri Corporation of America	Nevada

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports and to all references to our Firm included in or by incorporation by reference made a part of the Annual Report on Form 10-K of Oil-Dri Corporation of America for the fiscal year ended July 31, 1997 and the Registration Statement of Form S-8 relating to the Oil-Dri Corporation of America Stock Option Plan.

October 23, 1997

12-MOS  
     JUL-31-1997  
         JUL-31-1997  
             9,996,952  
             1,544,000  
             20,340,706  
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             46,910,417  
                 114,532,862  
             (58,737,021)  
             114,558,284  
 15,745,023  
             17,052,000  
             0  
                 0  
                 723,552  
             76,606,749  
 114,558,284  
             156,616,350  
 156,616,350  
             108,687,385  
             108,687,385  
             36,515,194  
             125,000  
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             9,514,265  
             2,720,792  
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             0  
             0  
                 0  
             6,793,473  
             1.03  
             1.03