Extra Space Storage Inc.
Form 10-K
February 26, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.
(Exact name of registrant as specified in its charter)

Maryland	20-1076777
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2795 East Cottonwood Parkway, Suite 300
Salt Lake City, Utah 84121
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code: (801) 365-4600
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x 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. ¨

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

The aggregate market value of the common stock held by non-affiliates of the registrant was $12,155,910,603 based upon the closing price on the New York Stock Exchange on June 29, 2018, the last business day of the registrant’s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates for any other purpose.

The number of shares outstanding of the registrant’s common stock, $0.01 par value per share, as of February 19, 2019 was 127,298,501.

Documents Incorporated by Reference

Portions of the registrant’s definitive proxy statement to be issued in connection with the registrant’s annual stockholders’ meeting to be held in 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K.

Extra Space Storage Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2018
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Statements Regarding Forward-Looking Information

Certain information set forth in this report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as "believes," "expects," "estimates," "may," "will," "should," "anticipates," or "intends" or the of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends and estimates of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in "Part I. Item 1A. Risk Factors" below. Such factors include, but are not limited to:

- adverse changes in general economic conditions, the real estate industry and in the markets in which we operate;
- failure to close pending acquisitions and developments on expected terms, or at all;
- the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;
- potential liability for uninsured losses and environmental contamination;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing real estate investment trusts ("REITs"), tenant reinsurance and other aspects of our business, which could adversely affect our results;
- disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- increased interest rates;
- reductions in asset valuations and related impairment charges;
- our lack of sole decision-making authority with respect to our joint venture investments;
- the effect of recent or future changes to U.S. tax laws;
- the failure to maintain our REIT status for U.S. federal income tax purposes; and
- economic uncertainty due to the impact of natural disasters, war or terrorism, which could adversely affect our business plan.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities.

We disclaim any duty or obligation to update or revise any forward-looking statements set forth in this Annual Report on Form 10-K to reflect new information, future events or otherwise.

PART I

Item 1. Business

General

Extra Space Storage Inc. (“we,” “our,” “us” or the “Company”) is a fully integrated, self-administered and self-managed real estate investment trust (“REIT”) formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop self-storage properties (“stores”). We closed our initial public offering (“IPO”) on August 17, 2004. Our common stock is traded on the New York Stock Exchange under the symbol “EXR.”

We were formed to continue the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. These companies were reorganized after the consummation of our IPO and various formation transactions. As of December 31, 2018 we owned and/or operated 1,647 stores in 39 states, Washington, D.C. and Puerto Rico, comprising approximately 125.7 million square feet of net rentable space in approximately 1.2 million units.

We operate in two distinct segments: (1) self-storage operations; and (2) tenant reinsurance. Our self-storage operations activities include rental operations of wholly-owned stores. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in our stores. For more information and comparative financial and other information on our reportable business segments, refer to the segment information footnote in the notes to the consolidated financial statements in Item 8 of this Form 10-K.

Substantially all of our business is conducted through Extra Space Storage LP (the “Operating Partnership”). Our primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). To the extent we continue to qualify as a REIT we will not be subject to U.S. Federal tax, with certain exceptions, on our net taxable income that is distributed to our stockholders.

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the “SEC”). You may obtain copies of these documents by visiting the SEC’s website at www.sec.gov. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at www.extraspace.com, or by contacting our Secretary at our principal offices, which are located at 2795 East Cottonwood Parkway, Suite 300, Salt Lake City, Utah 84121, telephone number (801) 365-4600.

Management

Members of our executive management team have significant experience in all aspects of the self-storage industry. Our executive management team and their years of industry experience are as follows: Joseph D. Margolis, Chief Executive Officer, 14 years; Scott Stubbs, Executive Vice President and Chief Financial Officer, 18 years; Samrat Sondhi, Executive Vice President and Chief Operating Officer, 15 years; Gwyn McNeal, Executive Vice President and Chief Legal Officer, 13 years; James Overturf, Executive Vice President and Chief Marketing Officer, 20 years.

Our executive management team and board of directors have an ownership position in the Company with executive officers and directors owning approximately 4,120,722 shares or 3.2% of our outstanding common stock as of February 19, 2019.

Industry & Competition

Stores offer month-to-month rental of storage space for personal or business use. Tenants typically rent fully enclosed spaces that vary in size and typically range from 5 feet by 5 feet to 20 feet by 20 feet, with an interior height of 8 feet to 12 feet. Tenants have responsibility for moving their items into and out of their units. Stores generally have on-site managers who supervise and run the day-to-day operations, providing tenants with assistance as needed.

Self-storage provides a convenient way for individuals and businesses to store their possessions due to life changes, or simply because of a need for storage space. The mix of residential tenants using a store is determined by a store’s local demographics and often includes people who are experiencing life changes such as downsizing their living space or others who are not yet settled into a permanent residence. Items that tenants place in self-storage are typically furniture, household items

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and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, inventory or storage for seasonal goods.

Our research has shown that tenants choose a store based primarily on the convenience of the site to their home or business, making high-density, high-traffic population centers ideal locations for stores. A store’s price, perceived security, cleanliness, and the general professionalism of the store managers and staff are also contributing factors to a store’s ability to successfully secure rentals. Although most stores are leased to tenants on a month-to-month basis, tenants tend to continue their leases for extended periods of time.

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been at the end of July, while our lowest level of occupancy has been in late February and early March.

Since inception in the early 1970’s, the self-storage industry has experienced significant growth. The self-storage industry has also seen increases in occupancy over the past several years. According to the Self-Storage Almanac (the “Almanac”), in 2013, the national average physical occupancy rate was 87.8% of net rentable square feet, compared to an average physical occupancy rate of 91.7% in 2018.

The industry is also characterized by fragmented ownership. According to the Almanac, as of the end of 2018, the top ten self-storage companies in the United States operated approximately 15.2% of the total U.S. stores, and the top 50 self-storage companies operated approximately 18.4% of the total U.S. stores. We believe this fragmentation will contribute to continued consolidation at some level in the future.

We believe that we are well positioned to compete for acquisitions. Recently we have encountered competition when we have sought to acquire existing operating stores, especially for brokered portfolios. Competitive bidding practices have been commonplace between both public and private entities, and this will likely continue.

We are the second largest self-storage operator in the United States. We are one of five public self-storage REITs along with CubeSmart, Life Storage, National Storage Affiliates and Public Storage.

Long-Term Growth and Investment Strategies

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value both at acceptable levels of risk. We continue to evaluate a range of growth initiatives and opportunities. Our primary strategies include the following:

Maximize the performance of our stores through strategic, efficient and proactive management

We pursue revenue-generating and expense-minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our advanced technology systems' ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost.

We continually analyze our portfolio to look for long-term value-enhancing opportunities. We proactively redevelop properties to add units or modify existing unit mix to better meet the demand in a given market and to maximize revenue. We also redevelop properties to reduce their effective useful age, increase visual appeal, enhance security and to improve brand consistency across the portfolio.

Acquire self-storage stores

Our acquisitions team continues to pursue the acquisition of multi-store portfolios and single stores that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We remain a disciplined buyer and only execute acquisitions that we believe will strengthen our portfolio and increase stockholder value.

In addition to the pursuit of stabilized stores, we develop stores from the ground up and provide the construction capital. We also purchase stores at the completion of construction from third party developers, who build to our specifications. These stores purchased at completion of construction (a "Certificate of Occupancy store"), create additional long term value for our stockholders. We are typically able to acquire these assets at a lower price than a stabilized store, and expect greater long term

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returns on these stores on average. However, in the short term, these acquisitions cause dilution to our earnings during the two-to-four year period required to lease up the Certificate of Occupancy stores. We expect that this trend will continue in 2019 as we continue to acquire Certificate of Occupancy stores.

Expand our management business

Our management business enables us to generate increased revenues through management fees as well as expand our geographic footprint, data sophistication and scale with little capital investment. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose stores would enhance our portfolio in the event an opportunity arises to acquire such stores.

Financing of Our Long-Term Growth Strategies

Acquisition and Development Financing

As a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders. Consequently, we require access to additional sources of capital to fund our growth. We expect to maintain a flexible approach to financing growth. We plan to finance future acquisitions through a diverse capital optimization strategy which includes but is not limited to: cash generated from operations, borrowings under our revolving lines of credit (the "Credit Lines"), secured and unsecured financing, equity offerings, joint ventures and the sale of stores.

Credit Lines - We have two credit lines which we primarily use as short term bridge financing until we obtain longer-term financing through either debt or equity. As of December 31, 2018, our Credit Lines had available capacity of $790.0 million, of which $709.0 million was undrawn.

Secured and Unsecured Debt - Historically, we had primarily used traditional secured mortgage loans to finance store acquisitions and development efforts. More recently, we obtain unsecured bank term loans and issue unsecured private placement bonds. We will continue to utilize a combination of secured and unsecured financing for future store acquisitions and development. As of December 31, 2018, we had $2.9 billion of secured notes payable and $1.9 billion of unsecured notes payable outstanding compared to $2.8 billion of secured notes payable and $1.7 billion of unsecured notes payable outstanding as of December 31, 2017.

Equity - We have an active "at the market" (ATM) program for selling stock. We sell stock under the ATM program from time to time to raise capital when we believe conditions are advantageous. During the year ended December 31, 2018, we issued 933,789 shares of common stock through our ATM program and received net proceeds of approximately $90.5 million. No shares were issued under the ATM program during the year ended December 31, 2017.

We view equity interests in our Operating Partnership as another source of capital that can provide an attractive tax planning opportunity to sellers of real estate. We issue common and preferred Operating Partnership units to sellers in certain acquisitions. Common Operating Partnership units receive distributions equal to the dividends on common stock, while preferred Operating Partnership units receive distributions at various negotiated rates. We may issue additional units in the future when circumstances are favorable.

Joint Venture Financing - As of December 31, 2018, we owned 233 of our stores through joint ventures with third parties. Our joint venture partners typically provide most of the equity capital required for the acquisition of stores owned in these joint ventures. Most joint venture agreements include buy-sell rights, as well as rights of first offer in connection with the sale of stores by the joint venture. We generally manage the day-to-day operations of the stores owned in these joint ventures and have the right to participate in major decisions relating to sales of stores or financings by the applicable joint venture, but do not control the joint ventures.

Sale of Properties - We have not historically sold a high volume of stores, as we generally believe we are able to optimize the cash flow from stores through continued operations. However, we may sell more stores or interests in stores in the future in response to changing economic, financial or investment conditions. For the years ended December 31, 2018 and 2017, we sold one store to a third party for approximately $40.2 million and 36 stores to a new joint venture with an existing partner for $295.0 million, respectively.

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Regulation

Generally, stores are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures and the Americans with Disabilities Act of 1990. Changes in any of these laws or regulations, as well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act, which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on stores, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of stores or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows. In addition, noncompliance with any of these laws, ordinances or regulations could result in the imposition of fines or an award of damages to private litigants and also could require substantial capital expenditures to ensure compliance.

Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, and are subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission pursuant thereto. Store management activities may be subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state. Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, results of operations or cash flows.

Employees

As of December 31, 2018, we had 3,624 employees and believe our relationship with our employees is good. Our employees are not represented by a collective bargaining agreement.

Item 1A. Risk Factors

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of the events set forth in the following risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Our performance is subject to risks associated with real estate investments. We are a real estate company that derives our income from the operation of our stores. There are a number of factors that may adversely affect the income that our stores generate, including the following:

Risks Related to Our Stores and Operations

Adverse economic or other conditions in the markets in which we do business could negatively affect our occupancy levels and rental rates and therefore our operating results.

Our revenues and net operating income can be negatively impacted by general economic factors that lead to a reduction in demand for rental space in the markets in which we operate.

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, our business and results of operations would be adversely affected.

Virtually all of our leases are on a month-to-month basis. Any delay in re-letting units as vacancies arise would reduce our revenues and harm our operating results. In addition, lower than expected rental rates upon re-letting could adversely affect our revenues and impede our growth.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.

We maintain comprehensive property and casualty insurance policies, including liability, fire, flood, earthquake, wind (as we deem necessary or as required by our lenders), umbrella coverage and rental loss insurance with respect to our stores. Certain types of losses, however, may be either uninsurable, not economically insurable, or coverage may be excluded on certain policies, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war, terrorism, or social engineering. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a store. In addition, if any such loss is insured, we may be required to pay significant amounts on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. As a result, our operating results may be adversely affected.

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Legal disputes, settlement and defense costs could have an adverse effect on our operating results.

From time to time we have to make monetary settlements or defend actions or arbitration (including class actions) to resolve tenant, employment-related or other claims and disputes. Settling any such liabilities could negatively impact our operating results and cash available for distribution to stockholders, and could also adversely affect our ability to sell, lease, operate or encumber affected properties.

Our tenant reinsurance business is subject to significant governmental regulation, which may adversely affect our results.

Our tenant reinsurance business is subject to significant governmental regulation. The regulatory authorities generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance providers. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment, which could adversely affect our business and results of operations.

Environmental compliance costs and liabilities associated with operating our stores may adversely affect our results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances, which could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions for which we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the ADA, places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws may also require modifications to our stores, or restrict certain further renovations of the stores, with respect to access thereto by disabled persons. If one or more of our stores is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the facility into compliance.

There is significant competition among self-storage operators and from other storage alternatives.

Competition in the local markets in which many of our stores are located is significant and has affected our occupancy levels, rental rates and operating expenses. Development of self-storage facilities has increased in recent years, which has intensified competition, and we expect it will continue to do so as newly developed facilities are opened. Development of self-storage facilities by other operators could continue to increase in the future. Actions by our competitors may decrease or prevent increases in our occupancy and rental rates, while increasing our operating expenses, which could adversely affect our business and results of operations.

We may not be successful in identifying and consummating suitable acquisitions that meet our criteria, which may impede our growth.

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable stores or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions will slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire stores on favorable terms and successfully integrate and operate them may be constrained by the following significant risks

- competition from local investors and other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;
- competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- the inability to achieve satisfactory completion of due diligence investigations and other customary closing conditions; and

- we may acquire stores subject to liabilities without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by persons dealing with the former owners of the stores and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the stores.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personally identifiable information, and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other sensitive information. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. While, to date, we have not experienced a material security breach, this risk has generally increased as the number, intensity and sophistication of such breaches and attempted breaches from around the world have increased. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, divert significant management attention and resources to remedy any damages that result, subject us to liability claims or regulatory penalties and have a material adverse effect on our business and results of operations.

Risks Related to Our Organization and Structure

Conflicts of interest could arise as a result of our relationship with our Operating Partnership.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, and our Operating Partnership or any partner thereof. Our directors and officers have duties to our Company under applicable Maryland law in connection with their management of our Company. At the same time, we, through our wholly-owned subsidiary, have fiduciary duties, as a general partner, to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, through our wholly-owned subsidiary, as a general partner to our Operating Partnership and its partners may come into conflict with the duties of our directors and officers to our Company. The partnership agreement of our Operating Partnership does not require us to resolve such conflicts in favor of either our Company or the limited partners in our Operating Partnership. Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness, and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that neither we, our direct wholly-owned Massachusetts business trust subsidiary, as the general partner of the Operating Partnership, nor any of our or their trustees, directors or officers, will be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee, director or officer, acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Our joint venture investments could be adversely affected by our lack of sole decision-making authority.
As of December 31, 2018, we held interests in 233 operating stores through joint ventures. Some of these arrangements could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial conditions and disputes between us and our co-venturers. We expect to continue our joint venture strategy by entering into more joint ventures for the purpose of developing new stores and acquiring existing stores. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. The decision-making authority regarding the stores we currently hold through joint ventures is either vested exclusively with our joint venture partners, is subject to a majority vote of the joint venture partners or is equally shared by us and the joint venture partners. In addition, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and efforts on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting stores owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers, which could harm our financial condition.
Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction.
Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize our qualification as a REIT. These restrictions on ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our securities or otherwise be in the best interests of our stockholders. Different ownership limits apply to the family of Kenneth M. Woolley, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; to Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; and to certain designated investment entities as defined in our charter.
Our board of directors has the power to issue additional shares of our stock in a manner that may not be in the best interest of our stockholders.
Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock or preferred stock and to increase the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors could issue additional shares of our common stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our securities or otherwise not be in the best interests of our stockholders.
Our rights and the rights of our stockholders to take action against our directors and officers are limited.
Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our

directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

Risks Related to Our Debt Financings

Disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.

Uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing debt maturities on favorable terms (or at all), which may negatively affect our ability to make acquisitions and fund development projects. A downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell stores or may adversely affect the price we receive for stores that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our stores or to pay the distributions currently contemplated or necessary to maintain our qualification as a REIT and may expose us to the risk of default under our debt obligations.

As of December 31, 2018, we had approximately $4.9 billion of outstanding indebtedness. We may incur additional debt in connection with future acquisitions and development. We may borrow under our Credit Lines or borrow new funds to finance these future stores. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity and/or debt offerings. Further, we may need to borrow funds in order to make cash distributions to maintain our qualification as a REIT or to make our expected distributions. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we are subject to U.S. federal corporate income tax to the extent that we distribute less than 100% of our net taxable income each year.

If we are required to utilize our Credit Lines for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions or to continue to make distributions required to maintain our qualification as a REIT;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our stores, possibly on disadvantageous terms;
- after debt service, the amount available for cash distributions to our stockholders is reduced;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our stores that secure their loans and receive an assignment of rents and leases and/or enforce our guarantees;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in a default on other indebtedness or result in the foreclosures of other stores.

Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make cash distributions to our stockholders.

As of December 31, 2018, we had approximately $4.9 billion of debt outstanding, of which approximately $1.3 billion, or 25.9% was subject to variable interest rates (excluding debt with interest rate swaps). This variable rate debt had a weighted average interest rate of approximately 3.9% per annum. Increases in interest rates on this variable rate debt would increase our interest expense, which could harm our cash flow and our ability to pay cash distributions.

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Failure to hedge effectively against interest rate changes may adversely affect our results of operations.
In certain cases we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make cash distributions to our stockholders.
Risks Related to Qualification and Operation as a REIT
Dividends payable by REITs may be taxed at higher rates.
Dividends payable by REITs may be taxed at higher rates than dividends of non-REIT corporations. The maximum U.S. federal income tax rate for qualified dividends paid by domestic non-REIT corporations to U.S. stockholders that are individuals, trust or estates is generally 20%. Dividends paid by REITs to such stockholders are generally not eligible for that rate, but under the 2017 Tax Legislation (defined below), such stockholders may deduct up to 20% of ordinary dividends (i.e., dividends not designated as capital gain dividends or qualified dividend income) from a REIT for taxable years beginning after December 31, 2017 and before January 1, 2026. Although this deduction reduces the effective tax rate applicable to certain dividends paid by REITs, such tax rate may still be higher than the tax rate applicable to regular corporate qualified dividends. This may cause investors to view REIT investments as less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock of REITs, including our stock. In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of our stores.
Possible legislative or other actions affecting REITs could adversely affect our stockholders.
The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service ("IRS") and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us in ways we cannot predict. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT, the U.S. federal income tax consequences of such qualification, or the U.S. federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The federal tax legislation enacted in December 2017, commonly known as the Tax Cuts and Jobs Act (the “2017 Tax Legislation”), has significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. Changes made by the 2017 Tax Legislation that could affect us and our stockholders include:

- permanently eliminating the progressive corporate tax rate structure, which previously imposed a maximum corporate tax rate of 35%, and replacing it with a corporate tax rate of 21%;
- permitting a deduction for certain pass-through business income, including dividends received by our stockholders from us that are not designated by us as capital gain dividends or qualified dividend income, which will allow individuals, trusts and estates to deduct up to 20% of such amounts for taxable years beginning after December 31, 2017 and before January 1, 2026;
- reducing the highest rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;
- limiting our deduction for net operating losses arising in taxable years beginning after December 31, 2017 to 80% of REIT taxable income (determined without regard to the dividends paid deduction);
- generally limiting the deduction for net business interest expense in excess of 30% of a business’s “adjusted taxable income,” except for taxpayers that engage in certain real estate businesses (including most equity REITs) and elect out of this rule (provided that such electing taxpayers must use an alternative depreciation system with longer depreciation periods); and
- eliminating the corporate alternative minimum tax.

Many of these changes that are applicable to us are effective beginning with our 2018 taxable year, without any transition periods or grandfathering for existing transactions. The legislation was unclear in many respects and could still be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the Treasury and IRS, any of which could lessen or increase the impact of the legislation. In addition, it is still unclear how these U.S. federal income tax changes could affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. While some of the changes made by the tax legislation may adversely affect us in one or more reporting periods and prospectively, other changes may be beneficial in the future. We continue to work with our tax advisors to determine the full impact that the 2017 Tax Legislation as a whole will have on us.

Our failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We believe we operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under the Internal Revenue Code. If we fail to qualify as a REIT or lose our qualification as a REIT at any time, we will face serious tax consequences that would substantially reduce the funds available for distribution for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal corporate income tax on our taxable income;
- we also could be subject to the U.S. Federal alternative minimum income tax for taxable years prior to 2018 and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at capital gains rates, and our U.S. corporate stockholders would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Internal Revenue Code. If we fail to qualify as a REIT for U.S. federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we may nevertheless be required to pay penalty taxes of $50,000 or more for each such failure. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value of our securities.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets, the sources of our gross income and the owners of our stock. Our ability to satisfy the asset tests depends upon our analysis of the fair market value of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. Our ability to satisfy the income tests depends on the sources and amounts of our gross income, which we may not be able to control. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains, and we will be subject to U.S. federal corporate income tax to the extent we distribute less than 100% of our net taxable income including capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the IRS regarding our qualification as a REIT.

We will pay some taxes, reducing cash available for stockholders.

Even though we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. Extra Space Management, Inc. manages stores for our joint ventures and stores owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a taxable REIT subsidiary (“TRS”) of our Company for U.S. federal income tax purposes. A TRS is subject to U.S. federal corporate income tax on its taxable income. ESM Reinsurance Limited, a wholly-owned subsidiary of Extra Space Management, Inc., generates income from insurance premiums that are subject to U.S. federal income tax and state insurance premiums tax, and pays certain insurance royalties to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our TRS and us are not comparable to similar arrangements among unrelated parties. Also, if we sell property as a dealer (i.e., to customers in the ordinary course of our trade or business), we will be subject to a 100% penalty tax on any gain arising from such sales. While we do not intend to sell stores as a dealer, the IRS could take a contrary position. To the extent that we are, or our TRS is, required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we owned or had ownership interests in 1,111 operating stores. Of these stores, 878 are wholly-owned, four are in consolidated joint ventures, and 229 are in unconsolidated joint ventures. In addition, we managed an additional 536 stores for third parties bringing the total number of stores which we own and/or manage to 1,647. These stores are located in 39 states, Washington, D.C. and Puerto Rico. The majority of our stores are clustered around large population centers. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

As of December 31, 2018, approximately 910,000 tenants were leasing storage units at the operating stores that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. Although leases are short-term in duration, the typical tenant tends to remain at our stores for an extended period of time. For stores that were stabilized as of December 31, 2018, the average length of stay was approximately 15.1 months.

The average annual rent per square foot for our existing customers at stabilized stores, net of discounts and bad debt, was $16.16 for the year ended December 31, 2018, compared to $15.58 for the year ended December 31, 2017. Average annual rent per square foot for new leases was $17.65 for the year ended December 31, 2018, compared to $16.58 for the year ended December 31, 2017. The average discounts, as a percentage of rental revenues, during these periods were 4.1% and 4.0%, respectively.

Our store portfolio is made up of different types of construction and building configurations. Most often sites are what we consider “hybrid” facilities, a mix of both drive-up buildings and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of facilities featuring ground-floor access only.

The following table presents additional information regarding net rentable square feet and the number of stores by state:

	As of December 31, 2018							
	REIT Owned		JV Owned		Managed		Total	
Location	Property Count	Net Rentable Square Feet	Property Count	Net Rentable Square Feet	Property Count	Net Rentable Square Feet	Property Count	Net Rental Square
Alabama	8	557,383	1	75,526	12	809,208	21	1,442,
Arizona	23	1,622,247	7	467,395	10	788,388	40	2,878,
California	146	11,419,502	53	3,754,066	62	5,623,178	261	20,796
Colorado	15	1,005,995	2	186,168	26	1,859,523	43	3,051,
Connecticut	7	526,713	7	600,841	3	199,708	17	1,327,
Delaware	—	—	1	76,945	1	69,254	2	146,19
Florida	86	6,598,217	22	1,715,503	72	5,418,773	180	13,732
Georgia	59	4,544,661	5	431,377	14	1,062,676	78	6,038,
Hawaii	9	603,250	—	—	7	402,516	16	1,005,
Illinois	31	2,398,915	5	371,543	26	1,834,470	62	4,604,
Indiana	15	949,530	1	57,046	12	766,715	28	1,773,
Kansas	1	49,999	2	108,370	1	70,120	4	228,48
Kentucky	11	834,018	1	51,128	4	311,898	16	1,197,
Louisiana	2	150,555	—	—	1	131,995	3	282,55
Maryland	32	2,564,091	7	530,328	22	1,581,031	61	4,675,
Massachusetts	45	2,843,567	9	560,381	6	402,796	60	3,806,

Michigan	7	559,079	4	313,045	1	102,291	12	974,41
Minnesota	4	285,098	—	—	5	303,649	9	588,74
Mississippi	3	215,912	—	—	4	254,530	7	470,44
Missouri	5	332,116	2	119,275	8	577,913	15	1,029,
Nebraska	—	—	—	—	2	128,103	2	128,10
Nevada	14	1,038,222	4	472,751	6	772,832	24	2,283,
New Hampshire	2	136,165	2	83,685	1	61,435	5	281,28
New Jersey	59	4,630,753	17	1,244,725	8	629,755	84	6,505,
New Mexico	11	720,605	3	163,710	6	523,471	20	1,407,
New York	23	1,741,030	11	856,868	14	742,747	48	3,340,
North Carolina	18	1,319,821	4	291,943	19	1,479,320	41	3,091,
Ohio	17	1,305,735	5	326,227	4	255,628	26	1,887,
Oklahoma	—	—	—	—	19	1,573,991	19	1,573,
Oregon	6	399,492	4	281,203	7	439,741		8,88
Total Contractual Cash Obligations		$ 53,250,000	$ 18,166,000		$ 12,740,000	$ 10,685,000		$ 11,65

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

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

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

OFF BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities. As of July 31, 2008, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We determine our current and deferred taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The tax effect of the reversal of tax differences is recorded at rates currently enacted for each jurisdiction in which we operate. To the extent that temporary differences will result in future tax benefit, we must estimate the timing of their reversal and whether taxable operating income in future periods will be sufficient to fully recognize any deferred tax assets. We maintain valuation allowances where it is likely that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the income tax provision in the period of change. In determining whether a valuation allowance is warranted, we take into account such factors as prior earnings history, expected future earnings and other factors that could effect the realization of deferred tax assets. We recorded valuation allowances for income taxes of $2,462,000 and $1,900,000 at July 31, 2008 and 2007, respectively. The fiscal 2008 valuation allowance increased due to higher alternative minimum tax credit carryforwards, since it is considered more likely than not that the benefit of these credits will not be realized. See Note 5 of the Notes of the Consolidated Financial Statement for further discussion.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (“FSP EITF 03-6-1). This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP is effective for financial statements issued for fiscal years beginning after December

15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions in this FSP. Earlier adoption is prohibited. We will adopt this FSP as of August 1, 2009. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

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

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

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

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

	July 31, 2008	July 31, 2007
	(in thousands of dollars)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 6,848**	$ 12,133
Investment in treasury securities	**20,916**	17,894
Accounts receivable, less allowance of $614 and $569 in 2008 and 2007, respectively	**31,383**	27,933
Inventories	**17,744**	15,237
Deferred income taxes	**890**	788
Prepaid expenses and other assets	**4,870**	4,315
Total Current Assets	**82,651**	78,300
Property, Plant and Equipment, at Cost		
Buildings and leasehold improvements	**23,801**	23,426
Machinery and equipment	**101,954**	99,240
Office furniture and equipment	**8,413**	9,231
Vehicles	**7,850**	6,933
	142,018	138,830
Less accumulated depreciation and amortization	**(104,494)**	(100,033)
	37,524	38,797
Construction in progress	**2,650**	1,509
Land	**11,266**	11,139
Total Property, Plant and Equipment, Net	**51,440**	51,445
Other Assets		
Goodwill	**5,162**	5,162
Trademarks and patents (Net of accumulated amortization of $349 and $327 in 2008 and 2007, respectively)	**733**	817
Debt issuance costs (Net of accumulated amortization of $525 and $450 in 2008 and 2007, respectively)	**338**	413
Licensing and non-compete agreements (Net of accumulated amortization of $2,987 and $2,757 in 2008 and 2007, respectively)	**1,752**	682
Deferred income taxes	**2,048**	1,618

Other	4,864	3,650
Total Other Assets	14,897	12,342
Total Assets	$ 148,988	$ 142,087

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

	July 31, 2008	July 31, 2007
	(in thousands of dollars)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of notes payable	$ 5,580	$ 4,080
Accounts payable	7,491	6,181
Dividends payable	919	833
Accrued expenses		
Salaries, wages and commissions	5,578	7,052
Trade promotions and advertising	2,126	2,395
Freight	2,345	1,305
Other	6,062	5,559
Total Current Liabilities	30,101	27,405
Noncurrent Liabilities		
Notes payable	21,500	27,080
Deferred compensation	5,498	4,756
Other	4,263	2,604
Total Noncurrent Liabilities	31,261	34,440
Total Liabilities	61,362	61,845
Stockholders Equity		
Common Stock, par value $.10 per share, issued 7,392,475 shares in 2008 and 7,270,167 in 2007	739	727
Class B Stock, par value $.10 per share, issued 2,239,538 shares in 2008 and 2,234,538 in 2007	224	223
Additional paid-in capital	22,218	20,150
Restricted unearned stock compensation	(674)	(991)
Retained earnings	105,966	100,503
Accumulated Other Comprehensive Income		
Unrealized gain on marketable securities	68	59
Pension and postretirement benefits	(121)	857
Cumulative translation adjustment	612	507
	129,032	122,035
Less treasury stock, at cost (2,261,942 Common and 324,741 Class B shares at July 31, 2008 and 2,286,226 Common and 324,741 Class B shares at July 31, 2007)	(41,406)	(41,793)
Total Stockholders Equity	87,626	80,242
Total Liabilities and Stockholders' Equity	$ 148,988	$ 142,087

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOM

	Number of Shares		$ Amounts (in thousands)				
	Common & Class B Stock	Treasury Stock	Common & Class B Stock	Additional Paid-In Capital	Retained Earnings	Restricted Unearned Stock Compensation	Treasury Stock
Balance, July 31, 2005	**9,133,157**	**(2,295,591)**	**$ 913**	**$ 13,735**	**$ 94,891**	**$ (75)**	**$ (35,366)**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended July 31,		
	2008	2007	2006
	(in thousands of dollars)		
Cash Flows from Operating Activities			
Net Income	**$ 9,039**	$ 7,660	$ 5,259

Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**7,455**	7,498	7,212
Amortization of investment discounts	**(692)**	(879)	(600)
Non-cash stock compensation expense	**902**	1,078	451
Excess tax benefits for share-based payments	**(313)**	(325)	(516)
Deferred income taxes	**(347)**	761	192
Provision for bad debts	**88**	323	127
Loss (Gain) on the sale of property, plant and equipment	**221**	525	(309)
(Increase) decrease in:			
Accounts receivable	**(3,538)**	(2,141)	(2,631)
Inventories	**(2,507)**	460	(3,011)
Prepaid overburden removal expense	**--**	--	(316)
Prepaid expenses	**(555)**	312	(280)
Other assets	**(1,026)**	821	345
Increase (decrease) in:			
Accounts payable	**1,438**	(934)	2,759
Accrued expenses	**(200)**	1,628	1,016
Deferred compensation	**742**	663	443
Other liabilities	**634**	(599)	494
Total Adjustments	**2,302**	9,191	5,376
Net Cash Provided by Operating Activities	**11,341**	16,851	10,635
Cash Flows from Investing Activities			
Capital expenditures	**(7,302)**	(7,757)	(10,827)
Purchase of strategic intangible assets	**(1,300)**	**--**	**--**
Proceeds from sale of property, plant and equipment	**43**	57	1,006
Purchases of investments in debt securities	**--**	--	(3,287)
Maturities of investments in debt securities	**--**	--	3,679
Purchases of investment in treasury securities	**(95,831)**	(55,217)	(65,336)
Dispositions of investment in treasury securities	**93,500**	57,450	59,786
Net Cash Used in Investing Activities	**(10,890)**	(5,467)	(14,979)
Cash Flows from Financing Activities			
Principal payments on long-term debt	**(4,080)**	(4,080)	(3,080)
Proceeds from issuance of long-term debt	**--**	--	15,000
Dividends paid	**(3,377)**	(3,038)	(2,403)
Purchase of treasury stock	**(20)**	(16)	(7,811)
Proceeds from issuance of treasury stock	**293**	111	631
Proceeds from issuance of common stock	**1,184**	1,003	2,460
Excess tax benefits for share-based payments	**313**	325	516
Other, net	**21**	149	247
Net Cash (Used in) Provided by Financing Activities	**(5,666)**	(5,546)	5,560
Effect of exchange rate changes on cash and cash equivalents	**(70)**	(312)	(554)
Net (Decrease) Increase in Cash and Cash Equivalents	**(5,285)**	5,526	662
Cash and Cash Equivalents, Beginning of Year	**12,133**	6,607	5,945
Cash and Cash Equivalents, End of Year	**$ 6,848**	$ 12,133	$ 6,607

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

MANAGEMENT USE OF ESTIMATES

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

STOCK SPLIT EFFECTED BY A STOCK DIVIDEND

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

CASH EQUIVALENTS AND INVESTMENTS IN SECURITIES

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

TRADE RECEIVABLES

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

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash investments and accounts receivable. We place our cash investments in government-backed instruments, both foreign and domestic, and with other quality institutions. Concentrations of credit risk with respect to accounts receivable are subject to the financial condition of certain major customers, principally the customer referred to in Note 3 of the Notes to the Consolidated Financial Statements. We generally do not require collateral to secure customer receivables.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES

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

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

TRANSLATION OF FOREIGN CURRENCIES

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

INTANGIBLES AND GOODWILL

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

PREPAID OVERBURDEN REMOVAL AND MINING COSTS

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

RECLAMATION

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

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

PROPERTY, PLANT AND EQUIPMENT

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

	Years
Buildings and leasehold improvements	5-30
Machinery and equipment	2-20
Office furniture, computers and equipment	2-10
Vehicles	2-8

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

TRADE PROMOTIONS

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Non-derivative financial instruments included in the Consolidated Balance Sheets are cash and cash equivalents, investment securities and notes payable. These instruments, except for notes payable and investments in U.S. Treasury securities, were carried at amounts approximating fair value as of July 31, 2008 and 2007. The fair value of notes payable was estimated based on future cash flows discounted at current interest rates available to us for debt with similar maturities and characteristics. The fair value of notes payable was more than its carrying value by approximately $418,000 as of July 31, 2008 and was less than its carrying value by approximately $405,000 as of July 31, 2007.

REVENUE RECOGNITION

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

COST OF SALES

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

SHIPPING AND HANDLING COSTS

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

RESEARCH AND DEVELOPMENT

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

ADVERTISING COSTS

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

PENSION AND POSTRETIREMENT BENEFIT COSTS

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION

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

INCOME TAXES

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

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

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

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

NEW ACCOUNTING STANDARDS

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

NOTE 2 SPECIAL CHARGES, FEES AND CHANGES IN ACCOUNTING ESTIMATES

COST OF SALES

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

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

GAIN ON SALE OF LONG-LIVED ASSETS

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

NOTE 3 OPERATING SEGMENTS

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

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

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

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

	Year Ended July 31					
	Net Sales			Income		
	2008	2007	2006	**2008**	2007	2006
	(in thousands)					
Business to Business Products	**$ 75,048**	$ 69,612	$ 70,349	**$ 15,782**	$ 13,302	$ 14,181

Retail and Wholesale Products	**157,311**	142,505	134,861	**14,973**	16,162	8,486
Total Sales/Operating Income	**$ 232,359**	$ 212,117	$ 205,210	**30,755**	29,464	22,667
Gain on Sale of Long-Lived Assets[1]				**--**	--	415
Less:						
Corporate Expenses				**17,461**	18,045	14,037
Interest Expense, Net of Interest Income				**1,119**	974	1,149
Income before Income Taxes				**12,175**	10,445	7,896
Income Taxes Provision				**(3,136)**	(2,785)	(2,637)
Net Income				**$ 9,039**	$ 7,660	$ 5,259

[1] See Note 2 for a discussion of the gain on the sale of long-lived assets

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NOTE 3 OPERATING SEGMENTS (CONTINUED)

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

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

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

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

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NOTE 4 NOTES PAYABLE

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

	2008	**2007**
	(in thousands)	

Town of Blue Mountain, Mississippi				
Principal payable on October 1, 2008. Interest payable monthly at a variable interest rate reset weekly based on market conditions for similar instruments. The average annual rate was 3.03% and 3.83% in fiscal 2008 and 2007, respectively. Payment of these bonds by the Company is guaranteed by a letter of credit issued by Harris Trust and Savings Bank	**$**	**2,500**	$	2,500
Prudential Financial				
Payable in annual principal installments on April 15: $1,500,000 in fiscal 2009; $3,000,000 in fiscal 2010; $2,000,000 in fiscal 2011; and $1,500,000 in fiscal 2012 and 2013. Interest is payable semiannually at an annual rate of 6.55%		**9,500**		13,500
The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company				
Payable in annual principal installments on October 15: $1,500,000 in fiscal 2009; $200,000 in fiscal 2010; $1,500,000 in fiscal 2011; $2,100,000 in fiscal 2012; $2,300,000 in fiscal 2013; $3,500,000 in fiscal 2014; $3,500,000 in fiscal 2015; $400,000 in fiscal 2016. Interest is payable semiannually at an annual rate of 5.89%		**15,000**		15,000
Other		**80**		160
	$	**27,080**	$	31,160
Less current maturities of notes payable		**(5,580)**		(4,080)
	$	**21,500**	$	27,080

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

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

NOTE 4 NOTES PAYABLE (CONTINUED)

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

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

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

In prior years, the Town of Blue Mountain, Mississippi issued long-term bonds to finance the purchase of substantially all of the assets of certain plant expansion projects, and leased the projects to us and various of our subsidiaries (with the Company and various of its wholly-owned subsidiaries as guarantors) at rentals sufficient to pay the debt service on the bonds. We repaid this debt in full on October 1, 2008.

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

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

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

	(in thousands)
2009	**$ 5,580**
2010	**3,200**
2011	**3,500**
2012	**3,600**
Later years	**11,200**
	$ 27,080

NOTE 5 INCOME TAXES

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

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

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

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

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

	2008		2007	
	Assets	**Liabilities**	Assets	Liabilities
	(in thousands)			
Depreciation	**$ --**	**$ 1,924**	$ --	$ 1,391
Deferred compensation	**2,237**	**--**	1,962	--
Postretirement benefits	**906**	**--**	420	--
Allowance for doubtful accounts	**274**	**--**	293	--
Other assets	**169**	**--**	319	--
Accrued expenses	**570**	**--**	433	--
Tax credits	**3,231**	**--**	2,654	--
Amortization	**--**	**116**	--	77
Inventories	**46**	**--**	62	--
Depletion	**--**	**625**	--	654
Stock compensation expense	**610**	**--**	427	--
Reclamation and other	**141**	**--**	--	--
Other assets foreign	**--**	**119**	--	142
	8,184	**2,784**	6,570	2,264
Valuation allowance	**(2,462)**	**--**	(1,900)	--
Total deferred taxes	**$ 5,722**	**$ 2,784**	$ 4,670	$ 2,264

NOTE 5 INCOME TAXES (CONTINUED)

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

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

NOTE 6 STOCKHOLDERS EQUITY

Our authorized capital stock at July 31, 2008 and 2007 consisted of 15,000,000 shares of Common Stock, 7,000,000 shares of Class B Stock and 30,000,000 shares of Class A Common Stock, each with a par value of $.10 per share. There are no Class A shares currently outstanding.

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

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

Common Stock is entitled to cash dividends, as and when declared or paid, equal to at least 133 1/3% on a per share basis of the cash dividend paid on Class B Stock. Class A Common Stock is entitled to cash dividends on a per share basis equal to the cash dividend on Common Stock. Additionally, while shares of Common Stock, Class A Common Stock and Class B Stock are outstanding, the sum of the per share cash dividend paid on shares of Common Stock and Class A Common Stock, must be equal to at least 133 1/3% of the sum of the per share cash dividend paid on Class B Stock and Class A Common Stock. See Note 4 regarding dividend restrictions.

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

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

NOTE 7 STOCK-BASED COMPENSATION

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

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

STOCK OPTIONS

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

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

The Oil-Dri Corporation of America Outside Director Stock Plan (the Directors Plan) provides for grants of stock options to directors at an option price per share of 100% of the fair market value of Common Stock on the date of grant. Our directors are considered employees under the provisions of FAS 123-R. Stock options have been granted to our directors for a 10-year term with a one year vesting period. There are 81,250 shares outstanding and no shares are available for future grants under this plan. All stock issued under the Directors Plan were from treasury stock.

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NOTE 7 STOCK-BASED COMPENSATION (CONTINUED)

EQUITY COMPENSATION PLAN INFORMATION AS OF JULY 31, 2008

	Number of securities to be issued upon exercise of	Weighted-average	Number of securities remaining available for further issuance under equity compensation plans (excluding

Plan category	outstanding options (in thousands) (a)	exercise price of outstanding options (b)	securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by stockholders	543	$8.74	790
Equity compensation plans not approved by stockholders Granted	81	$8.11	--

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

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

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

NOTE 7 STOCK-BASED COMPENSATION (CONTINUED)

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

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

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

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

The fair value of the stock options granted was estimated on the date of the grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. The components of the table are weighted averages of the assumptions for each fiscal year. The assumptions are determined on the date of the grant and grants issued on a given date are valued as a group. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of a grant is determined by reference to the vesting schedule, past exercise behavior and comparison with other reporting companies. We use the dividend rate at the date of grant as the best estimate of future dividends. Expected volatility is determined by calculating the standard deviation of our stock price for the five years immediately prior to the grant date. This period of time closely resembles the expected term. All of the options currently outstanding have a term of 10 years. All stock options issued under our plans have been issued at the closing market price on the date of grant. There were no grants in fiscal 2008.

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

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

NOTE 7 STOCK-BASED COMPENSATION (CONTINUED)

RESTRICTED STOCK

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

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

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

NOTE 8 EMPLOYEE BENEFIT PLANS

PENSION PLAN

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

POSTRETIREMENT HEALTH PLAN

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

401(K) SAVINGS PLAN

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

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

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

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

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

Benefits paid	**(735)**	(605)	**(103)**	(14)
Fair value of plan assets at end of year	**$ 17,706**	$ 17,648	**$ --**	$ --

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

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

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

The assumptions used in the previous calculations were as follows:

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

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

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

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

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NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

NOTE 9 DEFERRED COMPENSATION

In December 1995, we adopted the Oil-Dri Corporation of America Deferred Compensation Plan. This plan has permitted directors and certain management employees to defer portions of their compensation and to earn interest on the deferred amounts. During the period January 1, 1999 through September 30, 2000, participants returns were tied to the performance of various investment elections. After September 30, 2000, the participants returns have been set at our long-term cost of borrowing plus 1%. Compensation deferred since the inception of the plan has been accrued as well as earnings thereon. Participants have deferred $457,000, $322,000 and $304,000 into these plans in fiscal years 2008, 2007 and 2006, respectively. We recorded $698,000 in expense associated with these plans in fiscal 2008. Payments to participants were $238,000 in fiscal 2008 and the total liability recorded for deferred compensation is $5,279,000 at July 31, 2008.

NOTE 9 DEFERRED COMPENSATION (CONTINUED)

Effective April 1, 2003, we adopted the Oil-Dri Corporation of America Supplemental Executive Retirement Plan (SERP). The purpose of the Plan is to provide certain retired participants in the Oil-Dri Corporation of America Pension Plan (Retirement Plan) with the amount of benefits that would have been provided under the Retirement Plan but for: (1) the limitations on benefits imposed by Section 415 of the Internal Revenue Code (Code), and/or (2) the limitation on compensation for purposes of calculating benefits under the Retirement Plan imposed by Section 401(a)(17) of the Code. We recorded $23,000 in expense associated with this plan in the fiscal year ended July 31, 2008. The plan is unfunded and we will fund benefits when payments are made. The total liability recorded for the SERP is $269,000 at July 31, 2008.

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

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

NOTE 11 LEASES

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

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

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

The following is a schedule by year of future minimum rental requirements under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of July 31, 2008:

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

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NOTE 11 LEASES (CONTINUED)

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

	2008	2007	2006
	(in thousands)		
Vehicles and Railcars	**$ 1,011**	$ 1,206	$ 994
Office facilities	**750**	676	673
Warehouse facilities	**142**	142	142
Mining properties			
Minimum	**215**	131	104
Contingent	**370**	578	620
Other	**505**	832	760
	$ 2,993	$ 3,565	$ 3,293

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

NOTE 12 OTHER CASH FLOW INFORMATION

Cash payments for interest and income taxes were as follows:

	2008	2007	2006

	(in thousands)		
Interest	**$ 1,861**	$ 2,164	$ 1,756
Income taxes	**$ 2,902**	$ 2,559	$ 1,250

NOTE 13 DERIVATIVE INSTRUMENTS

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

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

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NOTE 14 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	Fiscal 2008 Quarter Ended				
	October 31	January 31	April 30	July 31	Total
	(in thousands except per share amounts)				
Net Sales	$ 55,285	$ 58,026	$ 59,543	$ 59,505	$ 232,359
Gross Profit	$ 12,430	$ 11,348	$ 11,057	$ 11,235	$ 46,070
Net Income	$ 2,484	$ 2,089	$ 2,013	$ 2,453	$ 9,039
Net Income Per Share					
Basic Common	$ 0.38	$ 0.32	$ 0.30	$ 0.37	$ 1.38
Basic Class B Common	$ 0.31	$ 0.26	$ 0.25	$ 0.30	$ 1.11
Diluted	$ 0.35	$ 0.29	$ 0.28	$ 0.34	$ 1.25
Dividends Per Share					
Common	$ 0.1300	$ 0.1300	$ 0.1300	$ 0.1400	$ 0.5300
Class B	$ 0.0975	$ 0.0975	$ 0.0975	$ 0.1050	$ 0.3975
Common Stock Price Range:					
High	$ 20.25	$ 23.60	$ 20.74	$ 20.70	
Low	$ 15.00	$ 18.80	$ 17.00	$ 14.95	

	Fiscal 2007 Quarter Ended				
	October 31	January 31	April 30	July 31	Total
	(in thousands except per share amounts)				
Net Sales	$ 52,129	$ 52,873	$ 52,956	$ 54,159	$ 212,117
Gross Profit	$ 10,663	$ 11,497	$ 11,539	$ 12,001	$ 45,700
Net Income	$ 1,647	$ 1,963	$ 1,999	$ 2,051	$ 7,660
Net Income Per Share					
Basic Common	$ 0.27	$ 0.32	$ 0.32	$ 0.32	$ 1.22
Basic Class B Common	$ 0.20	$ 0.23	$ 0.24	$ 0.24	$ 0.90
Diluted	$ 0.24	$ 0.28	$ 0.28	$ 0.29	$ 1.09

Dividends Per Share					
Common	$ 0.1200	$ 0.1200	$ 0.1200	$ 0.1300	$ 0.4900
Class B	$ 0.0900	$ 0.0900	$ 0.0900	$ 0.0975	$ 0.3675
Common Stock Price Range:					
High	$ 16.19	$ 18.25	$ 18.83	$ 18.57	
Low	$ 12.83	$ 15.32	$ 15.79	$ 16.31	

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Oil-Dri Corporation of America and its subsidiaries at July 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2008 and 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Chicago, Illinois
October 10, 2008

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

None.

PART III

ITEM 9A — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control Over Financial Reporting

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

Changes in Internal Control over Financial Reporting

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

Inherent Limitations on Effectiveness of Controls

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

ITEM 9B — OTHER INFORMATION

None.

ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

The Company has adopted a Code of Ethics and Business Conduct (the “Code”) which applies to all of its directors, officers (including the Company’s Chief Executive Officer and senior financial officers) and employees. The Code imposes significant responsibilities on the Chief Executive Officer and the senior financial officers of the Company. The Code, the Company’s Corporate Governance Guidelines and the charter of its Audit Committee may be viewed on the Company’s website, www.oildri.com and are available in print to any person upon request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213, telephone (312) 706-3232. Any amendment to, or waiver of, a provision of the Code which applies to the Company’s Chief Executive Officer or senior financial officers and relates to the elements of a “code of ethics” as defined by the Securities and Exchange Commission will also be posted on the Company’s website. As allowed by the controlled company exemption to certain New York Stock Exchange rules, the Company does not have a nominating/corporate governance committee and its compensation committee does not have a charter.

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

ITEM 11 — EXECUTIVE COMPENSATION

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

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

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

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14 PRINCIPAL ACCOUNTANTS FEES AND SERVICES

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

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

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

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

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

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

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

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm.

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

Schedule to Financial Statements, as follows:

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

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

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

Exhibit No.	Description	SEC Document Reference
3.1	Certificate of Incorporation of Oil-Dri, as amended.	Incorporated by reference to Exhibit 4.1 to Oil-Dri s Registration Statement on Form S-8 (Registration No. 333-57625), filed on June 24, 1998.
3.2	By-Laws of Oil-Dri Corporation of America, as Amended and Restated on December 5, 2006.	Incorporated by reference to Exhibit 3.1 to Oil-Dri□s (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
4.1	Letter of Credit Agreement, dated as of October 1, 1988 between Harris Trust and Savings Bank and Blue Mountain Production Company in the amount of $2,634,590 in connection with the issuance by Town of Blue Mountain, Mississippi of Variable/Fixed Rate Industrial Development Revenue Bonds, Series 1988 B (Blue Mountain Production Company Project) in the aggregate principal amount of $2,500,000 and related Indenture of Trust, Lease Agreement, Remarketing Agreement and Guaranties.	Debt instruments under which the total amount authorized does not exceed 10 percent of our total consolidated assets. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Oil-Dri agrees to furnish these agreements upon the request of the Commission.

Exhibit No.	Description	SEC Document Reference
10.1	Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001 between A&M Products Manufacturing Company and Oil-Dri (confidential treatment of certain portions of this exhibit has been granted).	Incorporated by reference to Exhibit 10(s) to Oil-Dri□s (File No. 001-12622) Current Report on Form 8-K filed on May 1, 2001.
10.2	First Amendment, dated as of December 13, 2002, to Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001.	Incorporated by reference to Exhibit 10.2 to Oil-Dri□s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2007.
10.3	Second Amendment, dated as of October 15, 2007, to Memorandum of Agreement #1450 Fresh Step dated as of March 12, 2001.	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 2008.
10.4	Exclusive Supply Agreement dated May 19, 1999 between Church & Dwight Co., Inc. and Oil-Dri (confidential treatment of certain portions of this exhibit has been granted).	Incorporated by reference to Exhibit (10)(r) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 1999.
10.5	$25,000,000 Note Purchase Agreement dated as of April 15, 1998 between Oil-Dri and Teachers Insurance and Annuity Association of America and Cigna Investments, Inc.	Incorporated by reference to Exhibit (10)(m) to Oil-Dri s (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 1998.
10.6	First Amendment, dated as of January 15, 2001 to the Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit (10)(m)(5) to Oil-Dri s (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2001.
10.7	Second Amendment, dated as of July 15, 2002 to Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit 10(m)(6) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2002.

10.8	Third Amendment, dated as of January 27, 2006 to Note Purchase Agreement dated as of April 15, 1998.	Incorporated by reference to Exhibit 10.2 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on February 1, 2006.
10.9	$15,000,000 Credit Agreement, dated January 27, 2006 among the Company, certain subsidiaries of the Company and Harris N.A.	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on February 1, 2006.
10.10	$15,000,000 Note Agreement dated as of December 16, 2005 among the Company, The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company.	Incorporated by reference to Exhibit 10.1 to Oil-Dri s (File No. 001-12622) Current Report on Form 8-K filed on December 22, 2005.
10.11	First Amendment, dated as of July 12, 2006 to Note Agreement dated as of December 16, 2005.	Incorporated by reference to Exhibit 10.9 to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2006.
10.12	Description of 1987 Executive Deferred Compensation Program.*	Incorporated by reference to Exhibit (10)(f) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 1988.
10.13	Salary Continuation Agreement dated August 1, l989 between Richard M. Jaffee and Oil-Dri (1989 Agreement).*	Incorporated by reference to Exhibit (10)(g) to Oil-Dri s (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 1989.

Exhibit No.	Description	SEC Document Reference
10.14	Extension and Amendment, dated October 9, 1998, to the 1989 Agreement.*	Incorporated by reference to Exhibit 10.12 to Oil-Dris (File No. 001-12622) Annual Report on Form 10-K for the fiscal year ended July 31, 2006.
10.15	Second Amendment, effective October 31, 2000, to the 1989 Agreement.*	Incorporated by reference to Exhibit 99.1 to Oil-Dris (File No. 001-12622) Current Report on Form 8-K filed on November 13, 2000.
10.16	Third Amendment, dated as of January 31, 2006, to the 1989 Agreement.*	Incorporated by reference to Exhibit 10.1 to Oil-Dris (File No. 001-12622) Current Report on Form 8-K filed on February 13, 2006.
10.17	Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit (10)(j)(1) to Oil-Dris (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended April 30, 2003.
10.18	First Amendment, effective as of January 1, 2007, to Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit 10.1 to Oil-Dris (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008
10.19	Second Amendment, effective as of January 1, 2008, to Oil-Dri Corporation of America Deferred Compensation Plan, as amended and restated effective April 1, 2003.*	Incorporated by reference to Exhibit 10.1 to Oil-Dris (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008

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

Exhibit No.	Description	SEC Document Reference
10.27	First Amendment, effective as of January 1, 2008, to Oil-Dri Corporation of America 2006 Long Term Incentive Plan (as amended and restated effective July 28, 2006)*	Incorporated by reference to Exhibit 10.5 to Oil-Dri's (File No. 001-12622) Quarterly Report on Form 10-Q for the quarter ended January 31, 2008.
10.28	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Class A Common Stock.*	Incorporated by reference to Exhibit 10.2 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.29	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Common Stock.*	Incorporated by reference to Exhibit 10.3 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.30	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Employee Stock Option Agreement for Class B Stock.*	Incorporated by reference to Exhibit 10.4 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.
10.31	Form of Oil-Dri Corporation of America 2006 Long-Term Incentive Plan Director Stock Option Agreement for Common Stock.*	Incorporated by reference to Exhibit 10.5 to Oil-Dri's (file No. 001-12622) Current Report on Form 8-K filed on December 11, 2006.

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

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

OIL-DRI CORPORATION OF AMERICA
(Registrant)

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

Dated: October 10, 2008

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

/s/ Richard M. Jaffee Richard M. Jaffee	October 10, 2008

Chairman of the Board of Directors

/s/ Daniel S. Jaffee Daniel S. Jaffee President and Chief Executive Officer, Director (Principal Executive Officer)	October 10, 2008
/s/ Andrew N. Peterson Andrew N. Peterson Vice President and Chief Financial Officer (Principal Financial Officer)	October 10, 2008
/s/ Daniel T. Smith Daniel T. Smith Vice President and Controller (Principal Accounting Officer)	October 10, 2008
/s/ J. Steven Cole J. Steven Cole Director	October 10, 2008
/s/ Arnold W. Donald Arnold W. Donald Director	October 10, 2008
/s/ Joseph C. Miller Joseph C. Miller Vice Chairman of the Board of Directors	October 10, 2008

/s/ Michael A. Nemeroff Michael A. Nemeroff Director	October 10, 2008
/s/ Allan H. Selig Allan H. Selig Director	October 10, 2008
/s/ Paul E. Suckow Paul E. Suckow Director	October 10, 2008

SCHEDULE II

OIL-DRI CORPORATION OF AMERICA AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

	Year Ended July 31 2008	2007 (in thousands)	2006
Allowance for doubtful accounts:			
Beginning balance	**$ 569**	$ 567	$ 609
Additions charged to expense	**89**	323	127
Deductions*	**44**	321	169
Balance at end of year	**$ 614**	$ 569	$ 567

* Net of recoveries.

	2008	2007	2006
Valuation reserve for income taxes:			
Beginning balance	**$ 1,900**	$ 1,831	$ 1,784
Additions (Deductions) charged to expense	**562**	69	47
Balance at end of year	**$ 2,462**	$ 1,900	$ 1,831

EXHIBITS

EXHIBIT NUMBER	
11.1	Statement Re: Computation of per share earnings
21.1	Subsidiaries of Oil-Dri
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certifications by Daniel S. Jaffee, President and Chief Executive Officer, and Andrew N. Peterson, Chief Financial Officer, required by Rule 13a-14(a)
32.1	Certifications pursuant to Section 1350 of the Sarbanes-Oxley Act of 2002
Note:	Stockholders may receive copies of the above listed exhibits, without fee, by written request to Investor Relations, Oil-Dri Corporation of America, 410 North Michigan Avenue, Suite 400, Chicago, Illinois 60611-4213.