Donaldson Company Announces Record Second-Quarter and Six-Month Results
MINNEAPOLIS--(BUSINESS WIRE)--Feb. 20, 2002--

Record second-quarter EPS at 45 cents, up 13 percent;
record six-month EPS at 88 cents, up 14 percent;
focusing on cost management and ROI improvements

Donaldson Company, Inc. (NYSE:DCI), today reported record net earnings of $20.8 million for the second fiscal quarter ended January 31, 2002, up 14.7 percent from $18.1 million last year. Record diluted earnings per share of $0.45 were up 12.5 percent from $0.40 last year. Revenue was $264.3 million, down 5.5 percent from a record $279.6 million last year. Foreign currency translation reduced revenue by 1.7 percent.

For the six-month period, net earnings totaled a record $40.5 million, up 16.0 percent from $34.9 million last year. Record diluted earnings per share of $0.88 were up 14.3 percent from $0.77 last year. Revenue was $552.7 million, down 2.9 percent from $569.5 million last year. Foreign currency translation reduced revenue by 1.1 percent.

"Donaldson is operating more efficiently than ever," said Bill Van Dyke, chairman, president and chief executive officer. "We entered this year with a global economy in various stages of recession in many of our served markets, including industrial dust collection and heavy-duty trucks. Knowing that, we have focused on those things within our control -- cost management and return on investment (ROI) improvements. Year-to-date, except for sales, we show improvements on every line of our income statement. We also have improved our working capital and inventory levels, using the cash to reduce debt levels and fund cost efficiency initiatives, such as our new plants underway in Mexico, China and Pennsylvania. These efforts have allowed us to maintain ROI at 19 percent year-to-date while remaining on track to deliver our 13th consecutive year of double-digit earnings growth."

Income Statement Discussion

The impact of foreign currency translation, mainly due to the continued weakness of the Yen and the South African Rand against the U.S. dollar, decreased net sales by $4.5 million from the second quarter last year and decreased net earnings by $0.2 million. Year-to-date, foreign currency translation has decreased net sales by $6.3 million and net earnings by $0.2 million. On a local currency basis, revenues outside the U.S. were flat in the quarter and increased 0.4 percent year-to-date. Using last year's foreign exchange rates, total worldwide revenue would have decreased 3.9 percent in the quarter and 1.8 percent year-to-date.

Gross margin for the quarter was 30.8 percent, essentially equal to the 30.9 percent from last year. Significant product cost reduction and infrastructure improvements to our manufacturing base offset our lower production volumes. Costs incurred for continuing plant rationalization came to $0.01 per share in the quarter and $0.03 per share year-to-date, versus $0.04 per share in last year's second quarter and $0.11 per share during the first half of last year. Year-to-date, gross margin has improved to 30.7 percent versus 30.2 percent last year.

Operating expenses were down $5.9 million this quarter compared to last year's second quarter, reducing operating expenses as a percent of sales to 20.0 percent from 21.0 percent last year. Worldwide headcount has declined to 8,130 employees from 8,620 last year. Discretionary expenses, such as consulting fees and travel, continue to be managed carefully. For the year, operating expenses declined to

- 20.3 percent of sales from 20.5 percent last year, despite the lower sales volume.

Interest expense was $1.2 million, down from $3.2 million last year. The 62.8 percent decrease was driven by the reduction in total debt by $44.6 million from a year ago and lower interest rates. Year-to-date, interest expense was $3.6 million, down 43.2 percent from $6.3 million last year.

Other income totaled $1.0 million, down from $1.6 million last year. Included in last year's second quarter was a gain from the sale of our Laminar Flow product line of $0.4 million. Year-to-date, other income was $1.7 million, an increase from $0.8 million last year.

The income tax rate for the quarter was 26.0 percent, which reduced the year-to-date rate to 27.0 percent, down from 28.0 percent for full-year fiscal 2001. The tax rate was adjusted to reflect state tax savings from infrastructure improvements. The company anticipates maintaining the 27.0 percent tax rate going forward.

Cash generated by operations in the quarter was $30.3 million, an improvement of $6.1 million from last year. The company continued to improve both receivables and inventory levels in the quarter. Year-to-date, cash generated by operations was $74.2 million, an improvement of $48.3 million from last year.

Backlog

Total backlog of $341 million was up 3 percent from the prior-quarter end but down 3 percent from the same period last year. In the Industrial Products segment, total backlog increased 11 percent from the prior-quarter end but decreased 4 percent from the same period last year. In the Engine Products segment, total backlog decreased 5 percent from the prior-quarter end and decreased 3 percent from the same period last year.

The 90-day backlog was $175 million, flat from the prior-quarter end and up 2 percent from the same period last year. In the Industrial Products segment, 90-day backlog decreased 1 percent from the prior-quarter end but increased 6 percent from the same period last year. In the Engine Products segment, 90-day backlog increased 1 percent from the prior-quarter end but decreased 2 percent from the same period last year.

Industrial Products Segment

Continued low levels of industrial capital spending drove weakness in Industrial Products, with sales in the second quarter of $124.6 million, a decrease of 11.6 percent from a record $141.0 million in the prior year. Year-to-date, Industrial Products sales were $256.5 million, a decrease of 2.7 percent from a record $263.7 million in the prior year.

Gas turbine product sales for the second quarter were a record $52.4 million, an increase of 1.2 percent from a record $51.8 million last year. Sales continued to be strong, both in North America and Europe. Year-to-date, gas turbine product sales were a record $109.7 million, up 27.2 percent from a record $86.2 million last year.

Dust collection product sales in the second quarter were $44.1 million, a decrease of 21.7 percent from a record $56.3 million last year. The U.S. manufacturing economy remained in a recession during the last quarter as the indices for industrial production, capacity utilization and machine tool consumption weakened in the quarter. The U.K. and German manufacturing economies remained weak as well, creating a difficult environment for European dust collection sales. Year-to-date, dust collection product sales were $92.3 million, down

- 20.5 percent from a record $116.1 million last year. Sales of special application products in the second quarter were $28.1 million, a decrease of 14.6 percent from a record $32.9 million last year. Disk drive filter sales were down from last year, as were photolithography filtration sales, reflecting the weakness in the computer, electronics and semiconductor markets that began a year ago. Year-to-date, special application product sales were $54.6 million, a decrease of 11.2 percent from a record $61.4 million last year.

Engine Products Segment

Engine Products sales for the second quarter were $139.7 million, an increase of 0.8 percent from $138.6 million last year. This marked the first year-over-year quarterly increase since the first fiscal quarter of 2001. Year-to-date, revenues were $296.2 million, a decrease of 3.1 percent from $305.8 million last year.

North American markets for medium- and heavy-duty trucks continue to be stable at low build levels, while European markets are weakening. For the quarter, truck sales were $19.6 million, an increase of 24.0 percent from $15.8 million last year. Year-to-date, sales were $41.2 million, an increase of 4.5 percent from $39.5 million last year.

Worldwide sales of off-road products in the quarter were $44.1 million, flat with last year. Strength in defense and mining equipment markets was offset by continued weakness in non-residential construction equipment and light industrial equipment markets. Year-to-date, sales were $90.0 million, a decrease of 0.6 percent from $90.6 million last year.

Aftermarket product sales in the quarter were $76.0 million, a decrease of 3.4 percent from $78.7 million last year. Orders per day bottomed out midway through the quarter, improving slightly in late January as inventory levels at parts dealers and distributors were taken to very low levels. Year-to-date, sales were $165.0 million, a decrease of 6.1 percent from $175.7 million last year.

Outlook

Within the Industrial Products segment, the company has good visibility on gas turbine sales and expects revenue to remain strong throughout fiscal 2002 and into early fiscal 2003, although year-over-year growth rates have begun to moderate. The company expects difficult operating conditions to persist for dust collection equipment sales, although replacement filter sales are expected to trend up in the near term as manufacturers begin to replenish depleted inventories. Conditions are expected to moderate for disk drive filtration in light of the company's view that market declines have bottomed out. Within the Engine Products segment, the company anticipates the current trends continuing: build rates have stabilized for on-road trucks and off-road markets are awaiting recovery in industrial construction. Sales growth in engine aftermarket products is expected to increase as inventories are already low and freight volumes are beginning to recover.

Until general economic conditions improve, the company will continue managing its cost structure as it did during the first six months of fiscal 2002. Focus will remain on discretionary expense controls, lowered spending on plant rationalization efforts and continued work on initiatives to increase the operating efficiencies of the business.

About Donaldson Company, Inc.

Donaldson Company, Inc., headquartered in Minneapolis, Minn., is a leading worldwide provider of filtration systems and replacement parts. Founded in 1915, Donaldson is a technology-driven company committed to satisfying customer needs for filtration solutions through innovative research and development. Donaldson serves customers in the industrial and engine markets including dust collection, power generation, specialty filtration, off-road equipment and trucks. More than 8,100 employees contribute to the company's success at 40 manufacturing locations around the world. In fiscal year 2001, Donaldson reported record sales of more than $1.1 billion and achieved its 12th consecutive year of double-digit earnings growth. Donaldson is a member of the S&P MidCap 400 Index and Donaldson shares are traded on the New York Stock Exchange under the symbol DCI. Additional company information is available at www.donaldson.com.

SAFE HARBOR STATEMENT UNDER THE SECURITIES REFORM ACT OF 1995

The company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is making this cautionary statement in connection with such safe harbor legislation. This earnings release, the Annual Report to Shareholders, any Form 10-K, 10-Q or Form 8-K of the company or any other written or oral statements made by or on behalf of the company may include forward-looking statements which reflect the company's current views with respect to future events and financial performance, but involve uncertainties that could significantly impact results. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "plan," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections are "forward-looking statements" and are based on management's current expectations of the company's near-term results, based on current information available pertaining to the company.

The company wishes to caution investors that any forward-looking statements made by or on behalf of the company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited t risks associated with currency fluctuations, commodity prices, world economic factors, political factors, international operations, highly competitive markets, changes in capital spending levels by customers, changes in product demand and changes in the geographic and product mix of sales, acquisition opportunities and integration of recent acquisitions, facility and product line rationalization, research and development expenditures, including ongoing information technology improvements, and governmental laws and regulations, including diesel emissions controls. For a more detailed explanation of the foregoing and other risks, see Exhibit 99, which is part of the company's Form 10-K filed with the Securities and Exchange Commission. The company wishes to caution investors that other factors might in the future prove to be important in affecting the company's results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Investors are further cautioned not to place undue reliance on such forward-looking statements as they speak only to the company's views as of the date the statement is made. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS
DONALDSON COMPANY, INC. AND SUBSIDIARIES
(Thousands of dollars, except per share amounts)
(Unaudited)

	Three Months Ended January 31		Six Months Ended January 31	
	2002	2001	2002	2001
Net sales	$264,281	$279,631	$552,710	$569,500
Cost of sales	183,007	193,315	383,118	397,228
Gross margin	81,274	86,316	169,592	172,272
Operating expenses	52,976	58,843	112,246	116,890
Operating income	28,298	27,473	57,346	55,382
Other (income) expense	(955)	(1,590)	(1,686)	(785)
Interest expense	1,190	3,199	3,574	6,297
Earnings before income taxes	28,063	25,864	55,458	49,870
Income taxes	7,303	7,759	14,974	14,961

Net earnings	$20,760	$18,105	$40,484	$34,909
Weighted average shares outstanding	44,152,615	44,273,159	44,215,963	44,422,165
Diluted shares outstanding	45,666,536	45,212,000	45,749,289	45,413,550
Net earnings per share	$.47	$.41	$.92	$.79
Net earnings per share assuming dilution	$.45	$.40	$.88	$.77
Dividends paid per share	$.075	$.075	$.150	$.145
Capital expenditures	$14,161	$8,868	$25,115	$15,255
Depreciation and amortization	$8,037	$8,619	$15,958	$18,631
EBITDA	$37,079	$37,405	$74,570	$74,256

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)
(Unaudited)

	January 31 2002	July 31 2001
ASSETS		
Cash and cash equivalents	$52,500	$36,136
Accounts receivable - net	199,862	230,046
Inventories - net	100,304	112,634
Prepaid expenses and other current assets	36,501	28,411
TOTAL CURRENT ASSETS	389,167	407,227
Other assets and deferred taxes	92,544	91,945
Property, plant and equipment - net	215,285	207,658
TOTAL ASSETS	$696,996	$706,830
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	$86,689	$100,287
Employee compensation and other liabilities	52,267	57,576
Notes payable	41,593	59,393
Current maturity long-term debt	23	23
TOTAL CURRENT LIABILITIES	180,572	217,279
Long-term debt	98,409	99,259
Other long-term liabilities	75,727	71,199
TOTAL LIABILITIES	$354,708	$387,737
EQUITY	$342,288	$319,093
TOTAL LIABILITIES AND EQUITY	$696,996	$706,830

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

	Six Months Ended January 31	
	2002	2001
OPERATING ACTIVITIES		
Net earnings	$40,484	$34,909
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15,958	18,631
Changes in operating assets and liabilities	13,816	(30,001)
Other	3,986	2,430

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Net Cash Provided by Operating Activities	74,244	25,969
INVESTING ACTIVITIES		
Net expenditures on property and equipment	(25,115)	(15,255)
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Net Cash Used in Investing Activities	(25,115)	(15,255)
FINANCING ACTIVITIES		
Purchase of treasury stock	(8,358)	(10,297)
Net change in debt	(17,438)	8,077
Dividends paid	(6,640)	(6,444)
Other	1,035	807
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Net Cash Provided by (Used in) Financing Activities	(31,401)	(7,857)
Effect of exchange rate changes on cash	(1,364)	(714)
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Increase in cash and cash equivalents	16,364	2,143
Cash and Cash Equivalents-Beginning of Year	36,136	32,017
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Cash and Cash Equivalents-End of Period	$52,500	$34,160
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