

The following table reconciles the U.S. statutory income tax rate with the effective income tax rate:

	2001	2000	1999
Statutory U.S. federal rate	35.0%	35.0%	35.0%
State income taxes	0.4	1.5	1.8
Foreign taxes at lower rates	(8.2)	(6.1)	(5.5)
Other	0.8	(0.4)	(1.3)
	28.0%	30.0%	30.0%

At July 31, 2001, certain international subsidiaries had available net operating loss carryforwards of approximately \$20.0 million to offset future taxable income. The majority of such carryforwards expire after 2003. Due to the uncertainty of the realizability of a portion of these losses, a valuation allowance of \$2.1 million has been recorded as of July 31, 2001. Unremitted earnings of international subsidiaries amounted to approximately \$133.5 million at July 31, 2001. The majority of those earnings are intended to be indefinitely reinvested and, accordingly, no deferred U.S. income taxes have been provided. If a portion were to be remitted, foreign tax credits would substantially offset any resulting incremental U.S. income tax liability. It is not practicable to estimate the amount of unrecognized taxes on these undistributed earnings due to the complexity of the computation.

The company made cash payments for income taxes of \$16.2 million, \$24.6 million and \$20.8 million in 2001, 2000 and 1999, respectively.



Segment Reporting

The company adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," effective with fiscal year-end 1999. This standard requires companies to disclose selected financial data by operating segment. A segment is defined as a component with business activity resulting in revenue and expense that has separate financial information evaluated regularly by the company's chief operating decision maker in determining resource allocation and assessing performance. The company has identified two reportable segments: Engine Products and Industrial Products. Segment selection was

based on the internal organizational structure, management of operations and performance evaluation by management and the company's Board of Directors.

The Engine Products segment sells to original equipment manufacturers (OEMs) in the construction, industrial, mining, agriculture and transportation markets and to independent distributors, OEM dealer networks, private label accounts and large private fleets. Products include air intake systems, exhaust systems, liquid filtration systems and replacement filters.

The Industrial Products segment sells to various industrial end-users, OEMs of gas-fired turbines, OEMs and end-users requiring highly purified air. Products include dust, fume and mist collectors, static and pulse-clean air filter systems and specialized air filtration systems.

Corporate and Unallocated include corporate expenses determined to be non-allocable to the segments, interest income and expense, non-operating income and expense, and expenses not allocated to the business segments in the same period. Assets included in Corporate and Unallocated principally are cash and cash equivalents, inventory reserves, certain prepaids, certain investments, other assets and assets allocated to intercompany transactions.

The company has developed an internal measurement system to evaluate performance and allocate resources based on profit or loss from operations before income taxes. The company's manufacturing facilities serve both reporting segments. Therefore, the company uses a complex allocation methodology to assign costs and assets to the segments. A certain amount of costs and assets are assigned to intercompany activity and are not assigned to either segment. Certain accounting policies applied to the reportable segments differ from those described in the summary of significant accounting policies. The reportable segments account for receivables on a gross basis and account for inventory on a standard cost basis.

Segment allocated assets are primarily accounts receivable, inventories and property, plant and equipment. Reconciling items included in Corporate and Unallocated are created based on accounting differences between segment reporting and the consolidated, external reporting as well as internal allocation methodologies.