

DONALDSON COMPANY REPORTS RECORD THIRD QUARTER RESULTS

FOR IMMEDIATE RELEASE:

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FOR FURTHER INFORMATION:

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Operating profit up 13 percent on 11 percent sales increase; reaffirming outlook for 16th consecutive year of record earnings

MINNEAPOLIS, May 25, 2005 -- Donaldson Company, Inc. (NYSE: DCI) announced record third quarter diluted earnings per share ("EPS") of \$.36, up from \$.33 last year. Net income was a record \$31.3 million, versus \$29.6 million last year. Sales were a record \$411.7 million, up from \$370.6 million in fiscal 2004.

For the nine-month period, diluted EPS was another record at \$.98, up from \$.89 last year. Net income was a record \$85.4 million, versus \$80.1 million last year. Sales were a record \$1.173 billion, up from \$1.031 billion in the prior year.

"Donaldson delivered a solid third quarter, posting all-time sales, earnings and EPS records," said Bill Cook, President and Chief Executive Officer. "Our continued cost reduction efforts helped our gross margin rebound back to historical levels. Gas turbine's weak third quarter sales caused their operating expenses to be a higher-than-normal percent of sales, but we expect them to come back in-line with a stronger fourth quarter. Sarbanes-Oxley compliance costs and start-up costs at our new disk drive filter plant in Thailand also contributed to higher operating expenses. As we look forward to the fourth quarter, incoming orders remain strong, and we are confident of delivering our 16th consecutive year of record earnings in fiscal 2005."

Income Statement Discussion

Stronger foreign currencies contributed to the increase in third quarter and year-to-date sales. Translated at constant exchange rates, sales increased 8.7 percent during the quarter and 10.8 percent year-to-date. The impact of foreign currency translation increased net earnings by \$0.5 million in the third quarter and \$1.9 million year-to-date.

Gross margin of 32.5 percent for the third quarter and 31.7 percent year-to-date compares to prior year margins of 32.4 percent and 32.0 percent, respectively. Third quarter operating expenses were 22.1 percent of sales, down from 22.2 percent in the prior year. Year-to-date operating expenses were 21.8 percent of sales, down from 22.1 percent last year.

Third quarter interest expense was \$2.5 million, up from \$1.3 million last year. The increase was driven by additional debt and higher short-term interest rates. Year-to-date interest expense was \$6.7 million, up from \$3.7 million last year. Other income decreased to \$1.0 million in the quarter from \$1.3 million last year on lower joint venture income. Year-to-date other income was \$6.3 million, up from \$2.7 million last year.

The effective tax rate was 24.6 percent in the third quarter versus 27.0 percent during the first six months. During the quarter, we filed an amended tax return related to a prior year, which resulted in additional R&D tax credits, thus lowering the tax rate for the quarter.

During the quarter, we repurchased 763,700 shares for \$24.3 million as part of our on-going share repurchase plan. Year-to-date, we have repurchased 3,763,700 shares, or 4.4 percent of outstanding shares, for \$116.3 million.

Backlog

Incoming orders grew 8 percent in the quarter over last year. Total backlog is strong, setting a new third quarter record at \$414 million, up 8 percent relative to last year. Our 90-day backlog is \$230 million, level relative to last year.

Engine Products Segment

Engine Products sales were a record \$243.2 million in the quarter, an increase of 11 percent from last year. Year-to-date Engine Products sales were a record \$680.2 million, an increase of 15 percent from last year.

Truck product sales in the quarter totaled \$45.6 million, up 9 percent from last year. NAFTA truck sales increased 16 percent due to growing new truck build rates. European truck product sales increased 32 percent on stronger build rates and increased market share. Truck product sales in Asia decreased 21 percent as emission sales had spiked in Japan last year ahead of new emissions regulations. Year-to-date worldwide truck product sales totaled \$129.8 million, an increase of 11 percent from last year.

Worldwide sales of off-road products in the quarter were \$79.3 million, up 14 percent from last year. NAFTA sales increased 10 percent on continued strength in new construction, agriculture and mining equipment demand. European off-road sales increased 21 percent while Asian sales increased 18 percent. Year-to-date worldwide sales totaled \$211.8 million, up 18 percent from last year.

Engine aftermarket sales in the quarter were \$118.3 million, an increase of 10 percent from last year. NAFTA aftermarket sales increased 7 percent as equipment utilization rates continued to improve and sales of diesel emission retrofit equipment continued ramping up. European sales increased 14 percent and Asian sales were up 7 percent. Year-to-date worldwide aftermarket sales were \$338.5 million, up 15 percent from the prior year.

Industrial Products Segment

Industrial Products sales in the quarter were a record \$168.5 million, an increase of 11 percent from last year. Year-to-date Industrial Products sales were a record \$492.8 million, an increase of 12 percent from last year.

Industrial Filtration Solutions ("IFS") sales in the quarter were a record \$105.8 million, an increase of 16 percent from last year. IFS sales were strong in NAFTA and Europe as sales increased 25 and 11 percent, respectively. Asian sales were even with last year. Year-to-date worldwide IFS sales totaled a record \$311.3 million, up 17 percent from last year.

Gas turbine product sales in the quarter were \$28.0 million, down 9 percent from last year. Year-to-date worldwide sales totaled \$81.6 million, down 7 percent from fiscal 2004. Our gas turbine 90-day backlog was up 10 percent compared to last year, consistent with our forecast of stronger fourth-quarter sales.

Sales of special application products in the quarter were a record \$34.6 million, an increase of 19 percent from last year. Year-to-date worldwide special application sales were a record \$99.9 million, up 16 percent from last year.

Outlook

Engine Products: We expect low-teens sales growth in fiscal 2005.

- NAFTA heavy-duty new truck build rates should remain at their current high levels as truck manufacturers are near capacity. The negative comparison from last year's emissions spike in Japan will abate in the fourth quarter.
- Off-road sales are expected to remain strong worldwide with robust conditions continuing in the production of new construction, agriculture and mining equipment.
- Both NAFTA and international aftermarket sales are expected to continue growing as increasing equipment utilization spurs replacement filter sales.

Industrial Products: We expect improving conditions for our Industrial Products businesses to also generate low-teens sales growth in fiscal 2005.

- Globally, we expect full-year gas turbine sales to match last year's total. Backlogs indicate a strong finish.
- IFS sales are expected to remain strong in the fourth quarter. Our American and European markets continue to improve with stronger order levels.
- Market conditions for special applications products continue to be stronger than last year.

"We remain optimistic on overall business conditions in our markets," said Bill Cook. "We expect to finish fiscal 2005 on a high note, with gross margin back to historical levels. We are confident of delivering another earnings record this year - our 16th consecutive record -- and beginning fiscal 2006 on solid footing."

About Donaldson Company, Inc.

Donaldson is a leading worldwide provider of filtration systems and replacement parts. 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 diesel engine markets including in-plant air cleaning, compressed air and gas purification, power generation, disk drive filtration, off-road equipment and trucks. Our 10,000 employees contribute to the company's success at over 30 manufacturing locations around the world. Donaldson is a member of the S&P MidCap 400 Index and Donaldson shares are traded on the NYSE under the symbol DCI. Additional company information is available at <http://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 (the "Act") 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, forecasts and projections

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," "outlook," "plan," "promises," "project," "should," "will be" and similar expressions are intended to identify "forward- looking statements" within the meaning of the Act.

The company wishes to caution investors that any forward-looking statements are subject to uncertainties and other risk factors that could cause actual results to differ materially from such statements, including but not limited to risks associated with: currency fluctuations, commodity prices, world economic factors, political factors, the company's substantial international operations, including production facilities in China, highly competitive markets, changes in capital spending levels by customers, changes in product demand, cancellations of orders, litigation, integration of 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, see the company's 2004 Form 10-K filed with the Securities and Exchange Commission. The company wishes to caution investors that 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.

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS

(Thousands of dollars, except share and per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30		April 30	
	2005	2004	2005	2004
Net sales	\$411,664	\$370,588	\$1,172,994	\$1,031,018
Cost of sales	277,743	250,353	801,388	700,770
Gross margin	133,921	120,235	371,606	330,248
Operating expenses	90,867	82,210	255,450	227,603
Gain on sale of Ome land and building	-	-	-	(5,616)
Operating income	43,054	38,025	116,156	108,261
Other income, net	(996)	(1,285)	(6,281)	(2,697)
Interest expense	2,470	1,272	6,734	3,666
Earnings before income taxes	41,580	38,038	115,703	107,292
Income taxes	10,247	8,467	30,260	27,166
Net earnings	\$31,333	\$29,571	\$85,443	\$80,126
Weighted average shares				
outstanding	84,768,788	87,975,804	85,132,531	88,073,242
Diluted shares				
outstanding	87,103,018	90,317,143	87,465,208	90,479,908
Net earnings per share	\$.37	\$.34	\$1.00	\$.91
Net earnings per share assuming dilution	\$.36	\$.33	\$.98	\$.89
Dividends paid per share	\$.060	\$.055	\$.175	\$.150

DONALDSON COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)

(Unaudited)

	April 30	July 31
	2005	2004
ASSETS		
Cash and cash equivalents	\$146,214	\$99,504
Accounts receivable - net	292,174	274,120
Inventories - net	162,591	143,418
Prepaid expenses and other current assets	44,123	40,338
Total current assets	645,102	557,380
Other assets and deferred taxes	220,061	182,700
Property, plant and equipment - net	277,819	261,529
Total assets	\$1,142,982	\$1,001,609

LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	\$136,496	\$124,401
Employee compensation and other liabilities	98,321	87,385
Notes payable	111,420	19,736
Income taxes payable	15,103	9,656
Current maturity long-term debt	31,233	34,346
Total current liabilities	392,573	275,524
Long-term debt	104,167	70,856
Other long-term liabilities	110,042	105,936
Total liabilities	606,782	452,316
Equity	536,200	549,293
Total liabilities and equity	\$1,142,982	\$1,001,609

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

	Nine Months Ended April 30	
	2005	2004
OPERATING ACTIVITIES		
Net earnings	\$85,443	\$80,126
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of Ome land and building	-	(5,616)
Depreciation and amortization	33,494	30,944
Changes in operating assets and liabilities	(2,390)	(25,740)
Other, net	(20,621)	(7,155)
Net cash provided by operating activities	95,926	72,559
INVESTING ACTIVITIES		
Net expenditures on property and equipment	(34,435)	(36,560)
Acquisitions and investments in unconsolidated affiliates, net of cash acquired	(13,236)	(4,397)
Net cash used in investing activities	(47,671)	(40,957)
FINANCING ACTIVITIES		
Purchase of treasury stock	(116,268)	(22,160)
Net change in debt	120,486	25,756
Dividends paid	(14,775)	(13,027)
Other, net	1,875	3,078
Net cash used in financing activities	(8,682)	(6,353)
Effect of exchange rate changes on cash	7,137	2,116
Increase in cash and cash equivalents	46,710	27,365
Cash and cash equivalents - beginning of year	99,504	67,070
Cash and cash equivalents - end of period	\$146,214	\$94,435

SEGMENT DETAIL
(Thousands of dollars)
(Unaudited)

	Engine Products	Industrial Products	Corporate & Unallocated	Total Company
3 Months Ended				
April 30, 2005:				
Net sales	\$243,212	\$168,452	---	\$411,664
Earnings before income taxes	37,669	14,392	(10,481)	41,580
3 Months Ended				
April 30, 2004:				
Net sales	\$219,297	\$151,291	---	\$370,588
Earnings before income taxes	34,045	11,034	(7,041)	38,038
9 Months Ended				
April 30, 2005:				
Net sales	\$680,229	\$492,765	---	\$1,172,994
Earnings before income taxes	95,926	37,994	(18,217)	115,703

9 Months Ended April 30, 2004:				
Net sales	\$590,454	\$440,564	---	\$1,031,018
Earnings before income taxes	81,623	31,674	(6,005)	107,292

NET SALES BY PRODUCT
(Thousands of dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30		April 30	
	2005	2004	2005	2004
Engine Products segment:				
Off-road products	\$79,316	\$69,536	\$211,849	\$179,190
Transportation products	45,572	41,820	129,847	117,209
Aftermarket products	118,324	107,941	338,533	294,055
Total Engine Products Segment	\$243,212	\$219,297	\$680,229	\$590,454
Industrial Products segment:				
Industrial filtration solutions products	\$105,824	\$91,458	\$311,258	\$266,734
Gas turbine products	27,995	30,612	81,623	87,847
Special applications products	34,633	29,221	99,884	85,983
Total Industrial Products segment	\$168,452	\$151,291	\$492,765	\$440,564
Total Company	\$411,664	\$370,588	\$1,172,994	\$1,031,018

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(Thousands of dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30		April 30	
	2005	2004	2005	2004
Free cash flow	\$18,836	\$17,282	\$61,491	\$35,999
Net capital expenditures	11,914	9,259	34,435	36,560
Net cash provided by operating activities	\$30,750	\$26,541	\$95,926	\$72,559
EBITDA	\$54,976	\$49,081	\$154,118	\$141,110
Income taxes	(10,247)	(8,467)	(30,260)	(27,166)
Interest expense (net)	(1,911)	(988)	(4,921)	(2,874)
Depreciation and amortization	(11,485)	(10,055)	(33,494)	(30,944)
Net earnings	\$31,333	\$29,571	\$85,443	\$80,126
Net sales, excluding foreign currency translation	\$402,774	\$351,162	\$1,142,253	\$970,492
Foreign currency translation	8,890	19,426	30,741	60,526
Net sales	\$411,664	\$370,588	\$1,172,994	\$1,031,018
Net earnings, excluding foreign currency translation	\$30,824	\$28,642	\$83,571	\$76,075
Foreign currency translation	509	929	1,872	4,051
Net earnings	\$31,333	\$29,571	\$85,443	\$80,126

Although free cash flow, EBITDA, net sales excluding foreign currency translation and net earnings excluding foreign currency translation are not measures of financial performance under GAAP, the company believes they are useful in understanding its financial results. Free cash flow is a commonly used measure of a company's ability to generate cash in excess of its operating needs. EBITDA is a commonly used measure of operating earnings less non-cash expenses. Both net sales and net earnings excluding foreign currency translation provide a comparable measure for understanding the operating results of the company's foreign entities excluding the impact of foreign exchange. A shortcoming of these

financial measures is that they do not reflect the company's actual results under GAAP. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures.

SOURCE Donaldson Company, Inc.

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