

DONALDSON COMPANY REPORTS RECORD THIRD QUARTER RESULTS

 [Attachment](#)

FOR IMMEDIATE RELEASE:

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FOR FURTHER INFORMATION:

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Record third quarter EPS up 19 percent

MINNEAPOLIS, MN (May 24, 2006) — Donaldson Company, Inc. (NYSE: DCI) today announced record third quarter diluted earnings per share ("EPS") of \$.43, up from \$.36 last year. Net income was a record \$37.0 million, versus \$31.3 million last year. Sales were a record \$429.9 million, up from \$411.7 million in fiscal 2005.

For the nine-month period, EPS was another record at \$1.12, up from \$.98 last year. Net income increased 12 percent to \$96.1 million compared to \$85.4 million last year. Sales were \$1.226 billion, up 5 percent from \$1.173 billion in fiscal 2005.

"The highlight of our third quarter was our strong operating margin performance of 12.4 percent which we achieved despite continued commodity cost increases," said Bill Cook, Donaldson's Chairman, President and CEO. "We offset the impact of commodity cost increases through very extensive and successful cost reduction and continuous improvement initiatives across our organization. Looking forward, our outlook is good. Our open order backlog is up 19 percent supporting our guidance of a strong finish to the year and the achievement of our 17th consecutive earnings record."

Income Statement Discussion

Translated at constant exchange rates, sales increased \$31.2 million, or 7.6 percent, during the quarter and \$82.3 million, or 7.0 percent, year-to-date. Weakening foreign currencies reduced the sales growth to \$18.2 million, or 4.4 percent, in the third quarter and \$53.2 million, or 4.5 percent, year-to-date. The impact of foreign currency translation decreased net earnings by \$0.6 million in the third quarter and \$1.1 million year-to-date.

Gross margin of 33.5 percent and 32.7 percent for the third quarter and year-to-date compares to prior year margins of 32.5 percent and 31.6 percent, respectively. We continue to see higher costs for petroleum-based raw materials and freight being offset primarily by our cost reduction efforts and selective price increases. Third quarter operating expenses were 21.1 percent of sales, down from 22.0 percent in the prior year. Year-to-date operating expenses were 21.7 percent of sales for both year-to-date periods and the current year includes \$2.6 million of stock option expense that was not included in the prior year.

Third quarter interest expense was \$2.3 million, down from \$2.5 million last year due to lower short-term borrowings. Year-to-date interest expense was \$7.2 million, up from \$6.7 million last year. Other income was \$0.9 million in the quarter, down from \$1.0 million last year. Year-to-date other income was \$6.2 million, down from \$6.3 million last year.

The effective tax rate of 28.6 percent for the third quarter and 27.9 percent for the year compares to 24.6 percent and 26.2 percent for the same periods in the prior year, respectively.

As part of our ongoing share repurchase program, we have repurchased 745,900 shares for \$25.0 million during the third quarter. Year-to-date, we repurchased 2,348,200 shares, or 2.8 percent of outstanding shares, for \$73.1 million.

Backlog

Total open order backlog is \$493 million, up 19 percent relative to last year.

Engine Products Segment

Engine Products sales were a record \$258.4 million in the quarter, an increase of 6.3 percent from last year. Year-to-date Engine Products sales were a record \$723.5 million, an increase of 6.4 percent from last year.

Truck product sales in the quarter totaled \$47.2 million, up 4 percent from last year. Year-to-date worldwide sales totaled \$136.0 million, an increase of 5 percent from last year.

Worldwide sales of off-road products in the quarter were \$84.0 million, up 6 percent from last year, on continued global strength in new construction and mining equipment demand. Year-to-date worldwide sales totaled \$225.8 million, up 7 percent from last year.

Engine aftermarket or replacement part sales in the quarter were \$127.2 million, an increase of 8 percent from last year,

as equipment utilization rates remained strong. Year-to-date worldwide sales totaled \$361.7 million, up 7 percent from last year.

Industrial Products Segment

Industrial Products sales in the quarter were a record \$171.4 million, an increase of 2 percent from last year. Year-to-date Industrial Products sales were a record \$502.7 million, an increase of 2 percent from last year.

Industrial Filtration Solutions ("IFS") sales in the quarter were a record \$109.2 million, an increase of 3 percent from last year. Year-to-date worldwide IFS sales totaled a record \$318.9 million, up 2 percent from last year.

Gas turbine product sales in the quarter were \$26.2 million, down 7 percent from last year. Year-to-date worldwide sales totaled \$78.9 million, down 3 percent from last year.

Sales of special application products in the quarter were a record \$36.0 million, an increase of 4 percent from last year. Year-to-date worldwide special application sales were a record \$104.9 million, up 5 percent from last year.

Outlook

Engine Products: We expect mid- to high-single digit sales growth in fiscal 2006 and mid-single digit sales growth in fiscal 2007.

- NAFTA new heavy-duty new truck build rates should remain at their current high levels through the end of calendar 2006 as our truck manufacturer OEMs are near capacity.
- Strong worldwide conditions are expected to continue in the production of new construction and mining equipment by our customers.
- Both our NAFTA and international aftermarket sales are expected to continue growing with continued strong equipment utilization, continued growth by our OEM customers of their replacement parts business, and the growing amount of equipment in the field with our PowerCore(tm) filtration systems.

Industrial Products: We expect mid-single digit sales growth in fiscal 2006 and high-single digit sales growth in fiscal 2007.

- IFS sales are expected to continue growing with healthy industrial conditions in NAFTA and Asia, and improving industrial markets in Europe.
- Globally, we expect mid single-digit sales growth for gas turbine for the full-year. Strength is seen in both the international and the oil and gas markets.
- Market conditions for special applications products are expected to remain strong.

Other:

- On May 23, 2006, the Company's Board of Directors approved a second foreign cash repatriation plan for an additional \$80.0 million pursuant to the American Jobs Creation Act of 2004. This planned \$80.0 million repatriation will result in a \$3.6 million tax charge, an estimated \$.04 per share, during the fourth quarter of fiscal 2006. This repatriation plan is in addition to the \$80.0 million repatriation announced in July 2005.
- We expect fiscal 2006 plant rationalization and new plant start-up expenses to be \$6 million to \$7 million. The fourth quarter impact is expected to be \$2.2 million to \$3.2 million.
- We expect fiscal 2006 EPS to be in the range of \$1.49 to \$1.54 per share.

To read the entire earnings release including financial tables, see the attached PDF file.

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 diesel engine and industrial markets including in-plant air cleaning, compressed air and gas purification, power generation, disk drive filtration, off-road equipment and on-road trucks. Our 11,000 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 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 international operations, highly competitive markets, and governmental laws and regulations. For a more detailed explanation, see the Company's 2005 Form 10-K and most recent Form 10-Q 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 or the extent to which any factor 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.

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