Donaldson Reports Record Second Quarter Results

Attachment

18 percent sales growth drives 19 percent EPS increase; reaffirming full year EPS guidance of $1.72 to $1.82 per share

MINNEAPOLIS, MN (Feb. 22, 2007) — Donaldson Company, Inc. (NYSE: DCI) announced record second quarter diluted earnings per share ("EPS") of $.38, up from $.32 last year. Net income was $31.3 million, versus $26.9 million last year. Sales were a record $463.7 million, up from $392.9 million in fiscal 2006.

For the six month period, EPS was another record at $.81, up from $.69 last year. Net income increased 14 percent to $67.3 million compared to $59.1 million last year. Sales were a record $910.2 million, up 14 percent from $796.3 million in fiscal 2006.

"Sales growth was very strong during the quarter, supporting our outlook for another record year," said Bill Cook, Chairman, President and CEO. "Our sales were especially good in Europe and Asia, where solid economic conditions and our well-developed market presence combined to deliver growth in excess of 25 percent in both regions. Our year-to-date operating margin of 10.6 percent compares favorably to 10.2 percent a year ago. Global economic conditions remain healthy for most of our businesses, giving us confidence in delivering our 18th consecutive year of record earnings."

Income Statement Discussion

Translated at constant exchange rates, sales increased $56.9 million, or 14.5 percent, during the quarter and $95.7 million, or 12.0 percent, year-to-date. The impact of currency translation increased the reported sales growth to $70.8 million, or 18.0 percent, for the quarter and to $113.8, or 14.3 percent, for the year. The impact of foreign currency translation increased reported net earnings by $1.7 million in the quarter and $2.5 million year-to-date.

Gross margins of 30.5 percent for the quarter and 31.3 percent year-to-date compare to prior year margins of 31.8 percent and 32.2 percent for the same periods. During the first half of the fiscal year, we have brought on new distribution capacity while Customer demand ramped up beyond our expectations, leading to higher than expected distribution costs. Over the next few quarters, we will be making investments in people, processes, and technology to further optimize our distribution capabilities. Gross margin was also impacted by a higher mix of system sales versus replacement parts during the quarter. Operating expenses for the quarter were 21.2 percent of sales, down from 22.1 percent in the prior year. Our second quarter included $2.5 million for the majority of our annual stock option expense, compared to $2.2 million last year. Operating expenses for the year were 20.7 percent of sales, down from 22.0 percent last year.

The effective tax rates of 25.6 percent for the quarter and 28.7 percent year-to-date compare to 28.4 percent and 27.5 percent for the same periods of the prior year. The lower tax rate in the quarter is primarily due to the impact of the reinstatement of the Research and Experimentation Tax Credit retroactive to January 1, 2006.

As a part of our ongoing share repurchase program, we repurchased 1,660,100 shares during the quarter for $58.2 million. Year-to-date, we have repurchased 1,759,800 shares for $61.9 million.

Outlook

Engine Products: We continue to expect mid-single digit percent full year sales growth in fiscal 2007 including the impact of the projected NAFTA new truck production decline.

- NAFTA heavy duty truck build rates are expected to decrease significantly with the implementation of the new EPA diesel emission standards. We expect our NAFTA truck product related sales to decrease $30 to $35 million during the second half of fiscal 2007 compared to the second half of fiscal 2006.
- Strong international conditions are expected to continue in the production of new construction and mining equipment by our OEM Customers. NAFTA non-residential and public construction markets are expected to remain healthy.
- Both our NAFTA and international aftermarket sales are expected to continue growing with strong equipment utilization, the ongoing growth by our OEM Customers of their replacement parts business, and the increasing amount of equipment in the field with our PowerCore™ filtration systems.

Industrial Products: We expect low- to mid-teens percent sales growth in fiscal 2007.

- Our industrial filtration sales are expected to continue growing as a result of the healthy global manufacturing investment and production utilization conditions.
- Our full year gas turbine sales should continue rebounding with our full year sales increasing approximately 20 to 25 percent over last year. Strength is seen in both the international power generation and the global oil and gas segments we serve.
- Conditions for our special applications products are expected to remain good due to continued strength in our global end markets.

Other:

- Our tax rate is expected to be 28 to 30 percent for the full year although our rate will vary by quarter due to country earnings mix and discrete events.
- We expect our full year fiscal 2007 EPS to be between $1.72 and $1.82 per share.

For the entire release, including financial statements, view the attached PDF file.

About Donaldson Company, Inc.

Donaldson is a leading worldwide provider of air and liquid filtration systems and replacement parts that improve people's lives, enhance our Customers' equipment performance and protect our environment. We are a technology-driven company committed to satisfying our Customers' needs for diesel engine equipment and industrial filtration solutions through innovative research and development, superior technology, and global presence. Our 12,000 employees contribute to the company's success by supporting our Customers at more than 100 sales, manufacturing, and distribution 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 announcement contains forward-looking statements, including forecasts, plans and projections relating to our business and financial performance, which involve uncertainties that could materially impact results.

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, governmental laws and regulations, and other factors included in our Annual and Quarterly Reports. We undertake no obligation to publicly update or revise any forward-looking statements.

FOR IMMEDIATE RELEASE: Thursday, February 22, 2007
FOR FURTHER INFORMATION: Rich Sheffer (952) 887-3753

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