

DONALDSON REPORTS RECORD SECOND QUARTER RESULTS

 [Attachment](#)

Sales and operating income growth drive 11 percent EPS increase

MINNEAPOLIS (Feb. 25, 2008) — Donaldson Company, Inc. (NYSE: DCI) announced second quarter diluted earnings per share ("EPS") of \$0.42, an 11 percent increase from \$0.38 last year. Net income was \$34.1 million, up from \$31.3 million last year. Sales were \$511.8 million, a 10 percent increase from \$463.7 million in the second quarter of 2007.

For the six-month period, EPS was \$0.95, an increase of 17 percent from \$0.81 last year. Net income increased 15 percent to \$77.4 million versus \$67.3 million last year. Sales were \$1.037 billion, up 14 percent from \$910.2 million in fiscal 2007.

"Our globally-diversified portfolio of filtration businesses provided the foundation to deliver another record quarter of sales and earnings," said Bill Cook, Chairman, President and CEO. "Strength in our Engine Products businesses internationally plus continued growth in our international Industrial Products businesses, including Industrial Filtration Solutions and Special Applications Products, helped offset some of our weaker NAFTA markets.

"Overall, we are on track with our business plan for the balance of fiscal 2008. We see sufficient strength across our Engine Products and Industrial Products businesses to increase our sales forecast for both segments and anticipate achieving our first \$2 billion revenue year. In addition, we remain confident that we will deliver our 19th consecutive year of record earnings."

Financial Statement Discussion

The impact of foreign currency translation increased reported sales by \$27.1 million in the quarter and \$47.7 million year-to-date. The impact of foreign currency translation increased reported net earnings by \$3.5 million in the quarter and \$6.8 million year-to-date.

Gross margins of 31.9 percent for the quarter and 32.4 percent year-to-date compare to prior year margins of 30.5 percent and 31.3 percent for the same periods. During the quarter, the implementation of our new warehouse management system in our main U.S. distribution center caused delays in processing Customer orders. This resulted in approximately \$2.1 million of unplanned higher distribution and operating costs and delayed sales of \$5.5 million. We are making progress and anticipate catching up on these delayed shipments in our third quarter.

Operating expenses for the quarter were 22.0 percent of sales, up from 21.2 percent last year. Our second quarter included \$3.0 million for the majority of our annual stock option expense, compared to \$2.5 million last year. Year-to-date operating expenses were 21.4 percent of sales, up from 20.7 percent last year.

The effective tax rates of 30.0 percent for the quarter and 28.4 percent year-to-date compare to 25.6 percent and 28.7 percent for the same periods last year. Last year's second quarter rate included a \$2 million benefit, primarily from the Research and Experimentation Tax Credit reinstatement.

As part of our ongoing share repurchase program, we repurchased 1,151,000 shares during the quarter for \$46.5 million. Year-to-date, we have repurchased 1,203,700 shares for \$48.6 million.

Fiscal 2008 Outlook

Engine Products: We increased our outlook and now expect 10 to 12 percent full year sales growth.

- We expect our NAFTA Transportation Products sales to decrease slightly in the third quarter before growth returns in our fourth quarter.
- We expect the NAFTA residential construction market to remain weak. However, production of new agriculture equipment by our Customers is projected to remain strong globally.
- Our Aftermarket sales are expected to continue growing due to strong equipment utilization internationally. We expect to continue benefiting from the increasing amount of equipment in the field with our PowerCore™ filtration systems.

Industrial Products: We increased our outlook and now expect 14 to 16 percent full year sales growth.

- Full year Industrial Filtration Solution sales are projected to grow 10 to 15 percent due to continued strong global manufacturing investment and production utilization conditions.
- We now expect our Gas Turbine Products sales to increase 20 to 30 percent for the full year. Continued strength is expected from both the international power generation and the oil and gas markets.
- Special Applications Products sales are now expected to grow 10 to 15 percent for the full year.

Other:

- In our guidance, we assume exchange rates will remain at current levels.
- We expect our operating margin will be a minimum of 11 percent for the full year, including the impact from the new warehouse management system implementation. Our operating income is now projected to be up 14 to 19 percent over the prior year.
- Our full year tax rate is now expected to be between 28 to 31 percent, although it will vary by quarter.
- We increased our full year EPS to be between \$2.00 and \$2.10 per share, which would be our 19th consecutive earnings record.

To view the full earnings release including financial tables view the attached PDF file.

About Donaldson Company

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 almost 13,000 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 and Russell 1000 indices, and our shares trade on the NYSE under the symbol DCI. Additional 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, the implementation of our new warehouse management system in our U.S. distribution center, 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:

Monday, February 25, 2008

FOR FURTHER INFORMATION:

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