

DONALDSON REPORTS RECORD THIRD QUARTER SALES AND EARNINGS

 [Attachment](#)

21 percent sales growth drives 27 percent operating income increase

MINNEAPOLIS (May 27, 2008) — Donaldson Company, Inc. (NYSE: DCI) announced third quarter diluted earnings per share ("EPS") of \$0.57, a 16 percent increase from \$0.49 last year. Net income was \$46.0 million, up from \$40.1 million last year. Sales were \$587.8 million, a 21 percent increase from \$484.0 million in the third quarter of 2007.

For the nine-month period, EPS was \$1.52, an increase of 17 percent from \$1.30 last year. Net income increased 15 percent to \$123.4 million versus \$107.4 million last year. Sales were \$1.625 billion, up 17 percent from \$1.394 billion in fiscal 2007.

"We experienced very broad-based strength this quarter," said Bill Cook, Chairman, President and CEO. "All of the product groups within our Industrial Products and most of those within our Engine Products posted double-digit sales growth this quarter, both as reported and in local currency. Geographically, sales increased by more than 15 percent in NAFTA and Asia, and by more than 25 percent in Europe. The strong sales growth helped lift our operating margin 40 basis points in the quarter, driving a 27 percent increase in operating income."

"Looking at the balance of fiscal 2008, we expect our business conditions to remain good. We see sufficient strength across our Engine Products and Industrial Products' businesses to maintain 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 \$37.0 million, or 7.6 percent, in the quarter and \$84.6 million, or 6.1 percent, year-to-date. The impact of foreign currency translation increased reported net earnings by \$2.9 million in the quarter and \$9.6 million year-to-date.

Gross margins of 32.0 percent for the quarter and 32.3 percent year-to-date compare to prior year margins of 31.0 percent and 31.2 percent for the same periods. As we stated last quarter, we will incur incremental expenses for the balance of this fiscal year related to the implementation of our new warehouse management system in our main U.S. distribution center. The incremental costs related to this for our third quarter were \$3.6 million.

Operating expenses for the quarter were 21.2 percent of sales, up from 20.6 percent last year. We continue to invest in essential product development initiatives and in our global Customer support capabilities. Year-to-date operating expenses were 21.3 percent of sales, up from 20.7 percent last year.

The effective tax rates of 25.6 percent for the quarter and 27.4 percent year-to-date compare to 16.2 percent and 24.5 percent for the same periods last year. The current quarter includes a net tax benefit of \$4.0 million due primarily to the expiration of the statute of limitations on matters previously reserved. Last year's third quarter rate included \$7.8 million of favorable adjustments related to the resolution of open foreign and state tax positions, the expiration of the statute of limitations on certain matters previously reserved, and a dividend from a foreign subsidiary.

As part of our ongoing share repurchase program, we repurchased 500,018 shares during the quarter for \$20.7 million. Year-to-date, we have repurchased 1,703,718 shares for \$69.3 million.

Fiscal 2008 Outlook

Engine Products: We now expect 11 to 13 percent full year sales growth.

- We expect our NAFTA Transportation Products' sales to begin growing again in our fourth quarter.
- We expect the NAFTA residential construction market to remain weak. However, high commodity prices and global infrastructure projects are expected to keep global demand strong for our Customers' new mining, heavy construction, and agriculture equipment.
- Our Aftermarket sales are expected to continue growing due to our ongoing expansion into new markets and strong equipment utilization internationally. We expect to continue benefiting from the increasing amount of equipment in the field with our PowerCore™ technology as well as our other new proprietary filtration systems.

Industrial Products: We now expect 17 to 19 percent full year sales growth.

- Full year Industrial Filtration Solutions' sales are projected to grow 15 to 20 percent due to continued strong global manufacturing investment and production utilization conditions.
- We now expect our Gas Turbine Products' sales to increase 25 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 expected to grow 15 to 20 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 our new warehouse management system implementation.
- Our operating income is projected to be up 17 to 19 percent over the prior year.
- Our full year tax rate is now expected to be between 28 and 31 percent.
- For the third time this year, we are increasing our full year FY08 EPS forecast. We now expect our EPS to be between \$2.08 and \$2.13 per share.
- Finally, this year we expect to achieve our 19th consecutive EPS and earnings records.

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:

Tuesday, May 27, 2008

FOR FURTHER INFORMATION:

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