DONALDSON REPORTS RECORD SECOND QUARTER RESULTS

Attachment

23 percent sales increase and strong operating margin deliver EPS of $0.56

MINNEAPOLIS (Feb. 16, 2011) — Donaldson Company, Inc. (NYSE: DCI) announced its financial results for its fiscal 2011 second quarter. Summarized financial results are as follows (dollars in millions, except per share data):

	Three Months Ended January 31			Six Months Ended January 31		
	2011	2010	Change	2011	2010	Change
Net sales	$537	$436	23%	$1,074	$864	24%
Operating income	67	39	73%	142	91	55%
Net earnings	45	31	44%	98	66	49%
Diluted EPS	$0.56	$0.39	44%	$1.24	$0.83	49%

"We delivered a better quarter than anticipated as we established second quarter records in sales, operating margin, and EPS. We experienced a continued strengthening in many of our end markets and all of our regions, and our cost structure has continued to improve from our ongoing *Continuous Improvement* initiatives," said Bill Cook, Chairman, President and CEO. "As our sales have grown we have added people and significantly increased our investments, but at a slower rate than our sales growth."

"In the quarter, sales in our Engine and Industrial Products' segments increased 29 percent and 15 percent, respectively. Business levels improved in all of our regions as local currency sales increased 31 percent in the Americas, 20 percent in Europe, 21 percent in South Africa, and 18 percent in Asia."

"Purchased raw material costs were up slightly in the quarter, and we expect further increases in the future. During the second half of our fiscal year, we plan to offset the majority of the impact of these cost increases through our *Continuous Improvement* initiatives and selective price increases."

"With a projected operating margin performance of between 13.0 and 13.8 percent, we now forecast our full year EPS to be between $2.57 and $2.77, a new record, and up between 22 and 32 percent from the previous year."

Financial Statement Discussion

The impact of foreign currency translation decreased sales by $3.5 million, or 0.8 percent, during the second quarter and $7.2 million, or 0.8 percent, year-to-date, compared to the same periods last year. The impact of foreign currency translation on net earnings was not material in the quarter or year-to-date.

Gross margin was 35.3 percent for the quarter and 35.2 percent year-to-date, compared to prior year margins of 33.5 percent and 34.1 percent, respectively. The increase in this year's second quarter gross margin was the result of better fixed cost absorption and our ongoing *Continuous Improvement* initiatives, partially offset by increases in purchased raw material costs and a change in our sales mix. In addition, last year's second quarter gross margin included restructuring charges of $3.4 million.

Operating expenses for the quarter were $122.1 million, up 14.2 percent from $106.9 million last year. As a percent of sales, operating expenses decreased to 22.7 percent from 24.5 percent last year primarily due to the increased sales volume. Operating expenses year-to-date were $235.7 million, or 21.9 percent of sales, compared to $202.9 million, or 23.5 percent of sales, last year.

The effective tax rate for the quarter was 34.4 percent, compared to a prior year rate of 17.5 percent. The current quarter included a $4.0 million tax charge related to the reorganization of our subsidiary holdings to improve our global business and legal entity structure. This was partially offset by $0.9 million in tax benefits primarily from the retroactive reinstatement of the Research and Experimentation Credit in the U.S. Last year's second quarter included benefits of $4.1 million from the expiration of the statute of limitations at a foreign subsidiary and other discrete tax items. Year-to-date the effective tax rate was 30.2 percent compared to a prior year rate of 25.1 percent.

During the quarter we made a $20.0 million discretionary contribution to our U.S. pension plans. We did not repurchase any shares during the second quarter, and year-to-date we have repurchased 150,000 shares, or 0.2 percent of our outstanding shares, for $6.5 million.

FY11 Outlook

We expect a continued recovery in many of our end markets in FY11, with higher growth rates in the emerging economies.

- We are planning our total FY11 sales to be over $2.2 billion, or up about 18 to 20 percent from the prior year. Our current forecast is based on the Euro at US$1.35 and 83 Yen to the US$.

- Our full year operating margin is forecasted to be 13.0 to 13.8 percent.
- Our full year FY11 tax rate is anticipated to be between 28 and 30 percent.
- Our full year FY11 EPS is expected to be between $2.57 and $2.77.
- Cash generated by operating activities is projected to be between $240 and $270 million in FY11. Capital spending is estimated to be between $70 and $80 million.

Engine Products: We expect full year sales to increase 21 to 26 percent, including the impact of foreign currency translation.

- Our sales to our construction, agricultural, and mining equipment OEM Customers are anticipated to remain strong globally. We will also benefit due to increased market share on our Customers' new Tier IV equipment platforms.
- We are forecasting moderately lower sales for our Aerospace and Defense Products due to the decreases in U.S. government spending.
- In our On-Road Products' business, we believe that build rates for heavy- and medium-duty trucks at our OEM Customers will continue accelerating consistent with current industry forecasts.
- Sales of our Aftermarket Products are expected to remain strong based on current utilization rates for both heavy trucks and off-road equipment. We should also benefit as our distribution networks continue to expand in the emerging economies and from the increasing number of systems installed in the field with our proprietary filtration systems.

Industrial Products: We forecast full year FY11 sales to increase 10 to 15 percent, including the impact of foreign currency translation.

- Our Industrial Filtration Solutions' sales are projected to increase 14 to 19 percent as the demand for new filtration equipment continues to improve as general industrial capital spending increases, primarily in Asia and the Americas.
- We anticipate our Gas Turbine Products' sales to be up approximately 5 percent due to strength in the oil and gas market segment.
- Special Applications Products' sales are forecasted to increase approximately 7 percent due to growing sales of our membranes products, which are partially offset by slower disk drive filter sales.

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

About Donaldson Company
Donaldson is a leading worldwide provider of filtration systems 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 filtration solutions through innovative research and development, application expertise, and global presence. Our 12,500 employees contribute to the Company's success by supporting our Customers at our 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 and global economic conditions, 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: world economic factors and the ongoing economic uncertainty, our Customers' financial condition, the potential for some Customers to increase their reliance on their own filtration capabilities, currency fluctuations, commodity prices, political factors, the Company's international operations, highly competitive markets, governmental laws and regulations, including the impact of various economic stimulus and financial reform measures, the implementation of our new information technology systems, potential global events resulting in market instability including financial bailouts of sovereign nations, political changes, military and terrorist activities, health outbreaks, 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:
Wednesday, February 16, 2011

FOR FURTHER INFORMATION:

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