

DONALDSON REPORTS THIRD QUARTER RESULTS

 [Attachment](#)

Record sales up 13 percent and EPS up 14 percent

MINNEAPOLIS, MN (May 29, 2007) — Donaldson Company, Inc. (NYSE: DCI) announced third quarter diluted earnings per share ("EPS") of \$.49, up from \$.43 last year. Net income was \$40.1 million, versus \$37.0 million last year. Sales were \$484.0 million, up from \$429.9 million in fiscal 2006.

For the nine month period, EPS was \$1.30, up from \$1.12 last year. Net income increased 12 percent to \$107.4 million compared to \$96.1 million last year. Sales were \$1.394 billion, up 14 percent from \$1.226 billion in fiscal 2006.

"We had another quarter that produced record sales and earnings. Sales increased over 20 percent again in Europe and Asia, driving our overall 13 percent sales increase despite the \$10 million decrease in our North American Transportation Products business," said Bill Cook, Chairman, President and CEO. "While we are very pleased with our strong revenue growth, we experienced operating challenges in handling the combination of the downturn in our Transportation Products business and the higher sales volume in our other businesses, which kept our gross margin below our recent run rate. We are aggressively working on a number of initiatives to address these challenges and will see their positive impacts in the upcoming quarters. We did improve our operating expenses as a percentage of sales to 20.6 percent from 21.1 percent last year. In addition, we benefited from two discrete items that lowered our tax expense by \$7.8 million this quarter. On a year-to-date basis, our EPS is now up 16 percent, leaving us confident of achieving our 18th consecutive earnings record."

Income Statement Discussion

Translated at constant exchange rates, sales increased \$38.6 million, or 9.0 percent, during the quarter and \$134.2 million, or 10.9 percent, year-to-date. The impact of currency translation increased the reported sales growth to \$54.1 million, or 12.6 percent, for the quarter and to \$168.0, or 13.7 percent, for the year. The impact of foreign currency translation increased reported net earnings by \$1.4 million in the quarter and \$3.9 million year-to-date.

Gross margins of 31.0 percent for the quarter and 31.2 percent year-to-date compare to prior year margins of 33.5 percent and 32.7 percent for the same periods. We continue to experience higher than expected distribution costs as we invest in people, processes and technology to enhance our capabilities in our expanded distribution capacity. Gross margin was also affected by an unfavorable product mix, notably some large system and low margin sales within Gas Turbine and Industrial Filtration Solutions Products and lower volumes in our plants that support our NAFTA Transportation Products business. Plant rationalization costs were higher in the quarter due to our ongoing efforts to quickly bring new manufacturing capacity online to handle higher volume levels as well as costs associated with production transfers. Plant rationalization expenses also increased due to production line conversions for new products related to our Customers' new 2007 emission compliant truck models.

Operating expenses for the quarter were 20.6 percent of sales, down from 21.1 percent in the prior year. Operating expenses for the year were 20.7 percent of sales, down from 21.7 percent last year.

Interest expense in the quarter increased \$1.9 million from last year as debt levels have increased this year due to our investments in working capital, the Aerospace Filtration Systems, Inc. acquisition in March, and our continued high levels of capital expenditures.

The effective tax rates of 16.2 percent for the quarter and 24.5 percent year-to-date compare to 28.6 percent and 27.9 percent for the same periods of the prior year. A benefit of \$6.3 million was recorded for the favorable resolution of some open foreign and state tax positions as well as the expiration of the statute of limitations on certain matters previously reserved. Additionally, a third quarter dividend from a foreign subsidiary created a \$1.5 million tax benefit.

As a part of our ongoing share repurchase program, we have repurchased 1,759,800 shares for \$61.9 million year-to-date. We repurchased no shares during the quarter.

Outlook

Engine Products: We expect mid- to high-single digit percent full year sales growth in fiscal 2007.

- Due to the impact of the new EPA diesel emission standards, we expect our NAFTA Transportation Products sales to decrease \$15 to \$20 million in the fourth quarter compared to last year.
- 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 mid- to high-teens percent full year 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 Gas Turbine sales should continue rebounding with full year sales increasing approximately 25 percent over last year. Continued strength is seen in both the international power generation and the global oil and gas segments.
- 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 26 to 28 percent for the full year.
- We expect our full year fiscal 2007 EPS to be between \$1.73 and \$1.80 per share.

For a complete copy of the news release, including financial tables, 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 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, 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 29, 2007

FOR FURTHER INFORMATION:

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