DONALDSON CO INC
Form 10-K
September 23, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** for the fiscal year ended July 31, 2011 or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from __________ to __________

Commission File Number: 1-7891

DONALDSON COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**41-0222640**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1400 West 94th Street, Minneapolis, Minnesota	**55431**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (952) 887-3131

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5 Par Value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such short period that the registrant was required to submit and post such files) x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

o Yes x No

As of January 28, 2011, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was $4,424,036,897 (based on the closing price of $58.04 as reported on the New York Stock Exchange as of that date).

As of August 31, 2011, there were approximately 74,522,228 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement for its 2011 annual meeting of stockholders (the 2011 Proxy Statement) are incorporated by reference in Part III, as specifically set forth in Part III.

DONALDSON COMPANY, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business

General

Donaldson Company, Inc. (Donaldson or the Company) was founded in 1915 and organized in its present corporate form under the laws of the State of Delaware in 1936.

The Company is a worldwide manufacturer of filtration systems and replacement parts. The Company s product mix includes air and liquid filtration systems and exhaust and emission control products. Products are manufactured at 39 plants around the world and through three joint ventures. The Company has two reporting segments: Engine Products and Industrial Products. Products in the Engine Products segment consist of air filtration systems, exhaust and emissions systems, liquid filtration systems, and replacement filters. The Engine Products segment sells to original equipment manufacturers (OEMs) in the construction, mining, agriculture, aerospace, defense, and truck markets and to OEM dealer networks, independent distributors, private label accounts, and large equipment fleets. Products in the Industrial Products segment consist of dust, fume, and mist collectors, compressed air purification systems, air filtration systems for gas turbines, PTFE membrane-based products, and specialized air filtration systems for applications including computer hard disk drives. The Industrial Products segment sells to various industrial end-users, OEMs of gas-fired turbines and OEMs and end-users requiring clean air.

The table below shows the percentage of total net sales contributed by the principal classes of similar products for each of the last three fiscal years:

	Year Ended July 31,		
	2011	2010	2009
Engine Products segment			
Off-Road Products	14%	12%	13%
Aerospace and Defense Products	5%	6%	6%
On-Road Products	5%	4%	4%
Aftermarket Products*	38%	37%	30%
Retrofit Emissions Products	1%	1%	2%
*includes replacement part sales to the Company s OEMs customers			
Industrial Products segment			
Industrial Filtration Solutions Products	22%	22%	26%
Gas Turbine Products	7%	8%	11%
Special Applications Products	8%	10%	8%

Financial information about segment operations appears in Note K in the Notes to Consolidated Financial Statements on page 49.

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, available free of charge through its website, at www.donaldson.com, as soon as reasonably practicable after it electronically files such material with (or furnishes such material to) the Securities and Exchange Commission. Also available on the Company s website are corporate governance documents, including the Company s code of business conduct and ethics, corporate governance guidelines, Audit Committee charter, Human Resources Committee charter, and Corporate Governance Committee charter. These documents are available in print, free of charge to any shareholder who requests them. The information contained on the Company s website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered to be part of this Form 10-K.

Seasonality

A number of the Company s end markets are dependent on the construction, agricultural, and power generation industries, which are generally stronger in the second half of the Company s fiscal year. The first two quarters of the fiscal year also contain the traditional summer and winter holiday periods, which are characterized by more Customer plant closures.

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Competition

Principal methods of competition in both the Engine and Industrial Products segments are technology, price, geographic coverage, service, and product performance. The Company competes in a number of highly competitive filtration markets in both segments. The Company believes it is a market leader with many of its product lines. The Company believes within the Engine Products segment it is a market leader in its Off-Road Equipment and On-Road Products lines for OEMs and is a significant participant in the aftermarket for replacement filters. The Engine Products segment s principal competitors include several large global competitors and many regional competitors, especially in the Engine Aftermarket Products business. The Industrial Products segment s principal competitors vary from country to country and include several large regional and global competitors and a significant number of smaller competitors who compete in a specific geographical region or in a limited number of product applications.

Raw Materials

The principal raw materials that the Company uses are steel, filter media, and plastics. Commodity prices generally increased throughout the year, but the impact was moderated by certain long term supply contracts. The Company anticipates a further impact from rising commodity prices in Fiscal 2012, as compared to Fiscal 2011, specifically for steel and media, as these supply contracts expired during the latter half of Fiscal 2011. The Company experienced no significant supply problems in the purchase of its major raw materials. The Company typically has multiple sources of supply for the raw materials essential to its business, and is not required to carry significant amounts of raw material inventory to secure supplier allotments. However, the Company does stock finished goods inventory at its regional distribution centers in order to meet anticipated Customer demand.

Patents and Trademarks

The Company owns various patents and trademarks, which it considers in the aggregate to constitute a valuable asset, including patents and trademarks for products sold under the Ultra-Web®, PowerCore®, and Donaldson® trademarks. However, it does not regard the validity of any one patent or trademark as being of material importance.

Major Customers

There were no Customers that accounted for over 10 percent of net sales in Fiscal 2011, 2010 or 2009. There were no Customers over 10 percent of gross accounts receivable in Fiscal 2011 or 2010.

Backlog

At August 31, 2011, the backlog of orders expected to be delivered within 90 days was $423.8 million. All of this backlog is expected to be shipped during Fiscal 2012. The 90-day backlog at August 31, 2010, was $361.1 million. Backlog is one of many indicators of business conditions in the Company s markets. However, it is not always indicative of future results for a number of reasons, including short lead times in the Company s replacement parts businesses and the timing of orders in many of the Company s Engine OEM and Industrial markets.

Research and Development

During Fiscal 2011, the Company spent $55.3 million on research and development activities. Research and development expenses include basic scientific research and the application of scientific advances to the development of new and improved products and their uses. The Company spent $44.5 million and $40.6 million in Fiscal 2010 and Fiscal 2009, respectively, on research and development activities. Substantially all commercial research and development is performed in-house.

Environmental Matters

The Company does not anticipate any material effect on its capital expenditures, earnings, or competitive position during Fiscal 2012 due to compliance with government regulations regulating the discharge of materials into the environment or otherwise relating to the protection of the environment.

Employees

The Company employed over 13,000 persons in worldwide operations as of August 31, 2011.

Geographic Areas

Financial information about geographic areas appears in Note K of the Notes to Consolidated Financial Statements on page 49.

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Item 1A. Risk Factors

There are inherent risks and uncertainties associated with our global operations that involve the manufacturing and sale of products for highly demanding Customer applications throughout the world. These risks and uncertainties could adversely affect our operating performance and financial condition. The following discussion, along with discussions elsewhere in this report, outlines the risks and uncertainties that we believe are the most material to our business. In light of the global economic slowdown in recent years and the continued uncertainty, we want to further highlight the risks and uncertainties associated with: world economic factors and the ongoing economic uncertainty that is impacting many regions of the world, the financial condition of our suppliers and Customers, 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, the possible reduced demand for hard disk drive products with the increased use of flash memory, highly competitive markets, governmental laws and regulations, including the impact of the various economic stimulus and financial reform measures being implemented by governments around the world, the implementation of our new information systems, potential global events resulting in instability and unpredictability in the world s markets, including financial bailouts of sovereign nations, political changes, military and terrorist activities, health outbreaks, and other factors discussed below. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Operating internationally carries risks which could negatively affect our financial performance.

We have sales and manufacturing operations throughout the world, with the heaviest concentrations in North America, Europe and Asia. Our stability, growth, and profitability are subject to a number of risks of doing business internationally that could harm our business, including:

- political and military events,
- legal and regulatory requirements, including import, export, defense regulations, and foreign exchange controls,
- tariffs and trade barriers,
- potential difficulties in staffing and managing local operations,
- credit risk of local Customers and distributors,
- difficulties in protecting intellectual property,
- local economic, political and social conditions, specifically in China and Thailand where we have significant investments and
- potential global health outbreaks.

Maintaining a competitive advantage requires continuing investment with uncertain returns.

We operate in highly competitive markets and have numerous competitors who may already be well-established in those markets. We expect our competitors to continue improving the design and performance of their products and to introduce new products that could be competitive in both price and performance. We believe that we have certain technological advantages over our competitors, but maintaining these advantages requires us to continually invest in research and development, sales and marketing, and Customer service and support. There is no guarantee that we will be successful in maintaining these advantages. We make investments in new technologies that address increased performance and regulatory requirements around the globe. There is no guarantee that we will be successful in completing development or achieving sales of these products or that the margins on such products will be acceptable. Our financial performance may be negatively impacted if a competitor s successful product innovation reaches the market before ours or gains broader market acceptance.

A few of our major OEM Customers also manufacture filtration systems. Although these OEM Customers rely on us and other suppliers for some of their filtration systems, they sometimes choose to manufacture additional filtration systems for their own use. There is also a risk that a Customer could acquire one or more of our competitors.

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We may be adversely impacted by changes in technology that could reduce or eliminate the demand for our products. These risks include:

- breakthroughs in technology which provide a viable alternative to diesel engines and
- reduced demand for disk drive products by flash memory or a similar technology, which would eliminate the need for our filtration solutions in disk drives.

We participate in highly competitive markets with pricing pressure. If we are not able to compete effectively our margins and results of operations could be adversely affected.

The businesses and product lines in which we participate are very competitive and we risk losing business based on a wide range of factors including technology, price, geographic coverage, product performance, and Customer service. Large Customers continue to seek productivity gains and lower prices from their suppliers. We may lose business or negatively impact our margins if we are unable to deliver the best value to our Customers.

Demand for our products relies on economic and industrial conditions worldwide.

Demand for our products tends to respond to varying levels of economic, construction, agricultural, mining, and industrial activity in the United States and in other industrialized nations.

Sales to Caterpillar accounted for slightly less than 10 percent of our net sales in Fiscal 2011, 2010 and 2009. An adverse change in Caterpillar s financial performance or a material reduction in our sales to Caterpillar could negatively impact our operating results.

Changes in our product mix impacts our financial performance.

We sell products that have varying profit margins. Our financial performance can be impacted depending on the mix of products we sell during a given period.

Unavailable or higher cost materials could impact our financial performance.

We obtain raw materials including steel, filter media, plastics, and other components from third-party suppliers and tend to carry limited raw material inventories. An unanticipated delay in delivery by our suppliers could result in the inability to deliver on-time and meet the expectations of our Customers. This could negatively affect our financial performance. An increase in commodity prices could also result in lower operating margins.

Difficulties with the Company s information technology systems could adversely affect our results.

The Company has many information technology systems that are important to the operation of its businesses. The Company could encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses due to disruption in business operations and could adversely affect the Company s results.

Unfavorable fluctuations in foreign currency exchange rates could negatively impact our results and financial position.

We have operations in many countries. Each of our subsidiaries reports its results of operations and financial position in its relevant foreign currency, which is then translated into U.S. dollars. This translated financial information is included in our consolidated financial statements. The strengthening of the U.S. dollar in comparison to the foreign currencies of our subsidiaries could have a negative impact on our results and financial position.

Acquisitions may have an impact on our results.

We have made and continue to pursue acquisitions. We cannot guarantee that these acquisitions will have a positive impact on our results. These acquisitions could negatively impact our profitability due to operating and integration inefficiencies, the incurrence of debt, contingent liabilities, and amortization expenses related to intangible assets. There are also a number of other risks involved in acquisitions. We could lose key existing Customers, have difficulties in assimilating the acquired operations, assume unanticipated legal liabilities, or lose key employees.

Compliance with environmental and product laws and regulations can be costly.

We are subject to many environmental laws and regulations in the jurisdictions in which we operate. We routinely incur costs in order to comply with these laws and regulations. We may be adversely impacted by new or changing laws and regulations that affect both our operations and our ability to develop and sell products that meet our Customers requirements.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company s principal administrative office and research facilities are located in Bloomington, a suburb of Minneapolis, Minnesota. The principal European administrative and engineering offices are located in Leuven, Belgium. The Company also has extensive operations in the Asia-Pacific region.

The Company s principal manufacturing and distribution activities are located throughout the world. The following is a summary of the principal plants and other materially important physical properties owned or leased by the Company.

Americas
Auburn, Alabama (E)
Riverbank, California (I)*
Valencia, California (E)*
Dixon, Illinois
Frankfort, Indiana
Cresco, Iowa
Grinnell, Iowa (E)
Nicholasville, Kentucky
Bloomington, Minnesota
Chillicothe, Missouri (E)
Chesterfield, Missouri (E)*
Philadelphia, Pennsylvania (I)
Greeneville, Tennessee
Baldwin, Wisconsin
Stevens Point, Wisconsin
Sao Paulo, Brazil (E)*
Brockville, Canada (I)*
Aguascalientes, Mexico
Monterrey, Mexico (I)

Joint Venture Facilities
Champaign, Illinois (E)
Jakarta, Indonesia
Dammam, Saudi Arabia (I)

Distribution Centers
Wyong, Australia
Brugge, Belgium
Rensselaer, Indiana
Ostiglia, Italy
Aguascalientes, Mexico
Johannesburg, South Africa

Europe / Middle East / Africa
Kadan, Czech Republic (I)
Klasterec, Czech Republic
Domjean, France (E)
Paris, France (E)*
Dulmen, Germany (E)
Flensburg, Germany (I)
Haan, Germany (I)
Ostiglia, Italy
Cape Town, South Africa
Johannesburg, South Africa*
Hull, United Kingdom
Leicester, United Kingdom (I)

Australia
Wyong, Australia

Asia
Hong Kong, China*
Wuxi, China
New Delhi, India
Gunma, Japan
Rayong, Thailand (I)

Third-Party Logistics Providers
Santiago, Chile
Wuxi, China
Mumbai, India
Plainfield, Indiana (I)
Gunma, Japan
Singapore
Greeneville, Tennessee (I)

The Company s properties are utilized for both the Engine and Industrial Products segments except as indicated with an (E) for Engine or (I) for Industrial. The Company leases certain of its facilities, primarily under long-term leases. The facilities denoted with an asterisk (*) are leased facilities. In Wuxi, China and Bloomington, Minnesota a portion of the activities are conducted in leased facilities. The Company uses third-party logistics providers for some of its product distribution and neither leases nor owns the facilities. The Company considers its properties to be suitable for their present purposes, well-maintained, and in good operating condition.

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Item 3. Legal Proceedings

The Company records provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. The Company believes the recorded reserves in its consolidated financial statements are adequate in light of the probable and estimable outcomes. Any recorded liabilities were not material to the Company s financial position, results of operation or liquidity, and the Company does not believe that any of the currently identified claims or litigation will materially affect its financial position, results of operation or liquidity.

The Company has reached a preliminary agreement to settle the class action lawsuits that were previously disclosed in its SEC filings, including most recently the Form 10-Q for the quarter ending April 30, 2011. On March 31, 2008, S&E Quick Lube, a filter distributor, filed a lawsuit alleging that 12 filter manufacturers, including the Company, engaged in a conspiracy to fix prices, rig bids, and allocate U.S. Customers for aftermarket automotive filters. The U.S. cases have been consolidated into a single multi-district litigation in the Northern District of Illinois. The Company denies any liability and has vigorously defended the claims raised in these lawsuits. The settlement will fully resolve all claims brought against the Company in the lawsuits and the Company does not admit any liability or wrongdoing. The settlement is still subject to Court approval and will not have a material impact on the Company s financial position, results of operations or liquidity.

The Company has reached a preliminary agreement with the Air Resources Board for the State of California (ARB) to settle regulatory claims brought by ARB in connection with the sales of our Diesel Multi-Stage Filter System (DMF) for an immaterial amount. On May 19, 2010, ARB revoked its verification of the Company s DMF for use with on-road diesel engines, for which verification was originally issued on December 16, 2005. The Company denies that any sales were made in California without ARB verification. The Company is not currently selling any DMF product and is working with the Environmental Protection Agency to verify the product for any future sales.

Item 4. (Removed and Reserved)

Executive Officers of the Registrant

Current information regarding executive officers is presented below. All terms of office are for one year. There are no arrangements or understandings between individual officers and any other person pursuant to which the officer was selected as an executive officer.

Name	Age	Positions and Offices Held	First Fiscal Year Appointed as an Executive Officer
Tod E. Carpenter	52	Vice President, Europe and Middle East	2008
William M. Cook	58	Chairman, President and Chief Executive Officer	1994
Sandra N. Joppa	46	Vice President, Human Resources	2005
Norman C. Linnell	52	Vice President, General Counsel and Secretary	1996
Charles J. McMurray	57	Senior Vice President, Industrial Products	2003
Mary Lynne Perushek	53	Vice President and Chief Information Officer	2006
David W. Timm	58	Vice President, Asia-Pacific	2007
Thomas R. VerHage	58	Vice President and Chief Financial Officer	2004
Jay L. Ward	47	Senior Vice President, Engine Products	2006
Debra L. Wilfong	56	Vice President and Chief Technology Officer	2007

Mr. Carpenter joined the Company in 1996 and has held various positions, including Gas Turbine Systems General Manager from 2002 to 2004; General Manager, Industrial Filtration Systems (IFS) Sales from 2004 to 2006; General Manager, IFS Americas in 2006; and Vice President, Global IFS from 2006 to 2008. Mr. Carpenter was appointed Vice President, Europe and Middle East in August 2008. Mr. Carpenter has been appointed Senior Vice President, Engine Products, effective October 1, 2011.

Mr. Cook joined the Company in 1980 and has held various positions, including CFO and Senior Vice President, International from 2001 to 2004 and President and CEO from 2004 to 2005. Mr. Cook was appointed Chairman, President and CEO in July 2005.

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Ms. Joppa was appointed Vice President, Human Resources and Communications in November 2005. Prior to that time, Ms. Joppa held various positions at General Mills, a consumer food products company, from 1989 to 2005, including service as Director of Human Resources for several different operating divisions from 1999 to 2005.

Mr. Linnell joined the Company in 1996 as General Counsel and Secretary and was appointed Vice President, General Counsel and Secretary in 2000.

Mr. McMurray joined the Company in 1980 and has held various positions, including Director, Global Information Technology from 2001 to 2003; Vice President, Human Resources from 2004 to 2005; and Vice President, Information Technology, Europe, South Africa, and Mexico from 2005 to 2006. Mr. McMurray became Senior Vice President, Industrial Products in September 2006. Mr. McMurray has been appointed Senior Vice President and Chief Administrative Officer, effective October 1, 2011.

Ms. Perushek was appointed Vice President and Chief Information Officer in November 2006. Prior to that time, Ms. Perushek was Vice President of Global Information Technology at H.B. Fuller Company, a worldwide manufacturer of adhesive products, from 2005 to 2006 and Chief Information Officer for Young America Corporation, a marketing company, from 1999 to 2004.

Mr. Timm joined the Company in 1983 and has held various positions, including General Manager, Disk Drive from 1995 to 2005 and General Manager, Gas Turbine Systems Products from 2005 to 2006. Mr. Timm was appointed Vice President, Asia-Pacific in December 2006. The Company has announced that Mr. Timm will retire from the Company at the end of 2011, with his replacement to be announced at a later date.

Mr. VerHage was appointed Vice President and Chief Financial Officer in March 2004. Prior to that time, Mr. VerHage was a partner for Deloitte & Touche, LLP, an international accounting firm, from 2002 to 2004. The Company has announced that Mr. VerHage is leaving the Company on October 31, 2011 and that James F. Shaw, age 42, currently Controller and Principal Accounting Officer for the Company, has been appointed Vice President and Chief Financial Officer, effective November 1, 2011.

Mr. Ward joined the Company in 1998 and has held various positions, including Director, Operations from 2001 to 2003; Director, Product and Business Development, IFS Group from 2003 to 2004; Managing Director, Europe from 2004 to 2006; and Vice President, Europe, and Middle East from 2006 to 2008. Mr. Ward was appointed Senior Vice President, Engine Products in August 2008. Mr. Ward has been appointed Senior Vice President, Industrial Products, effective October 1, 2011.

Ms. Wilfong was appointed Vice President and Chief Technology Officer in May 2007. Prior to that time, Ms. Wilfong was Director, Research and Development at 3M Company, an international consumer products company, from 2000 to 2007, most recently as Director, Research and Development for the 3M Automotive Division from 2006 to 2007.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common shares of the Company are traded on the New York Stock Exchange under the symbol DCI. The amount and frequency of all cash dividends declared on the Company s common stock for Fiscal 2011 and 2010 appear in Note P of the Notes to Consolidated Financial Statements on page 54. The Company s dividend payout ratio target is 20 percent to 30 percent of the average earnings per share of the last three years. This guidance is expected to be used for future dividend payouts. As of September 22, 2011, there were 1,950 shareholders of record of common stock.

The low and high sales prices for the Company s common stock for each full quarterly period during Fiscal 2011 and 2010 were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2011	$40.86 - 50.19	$48.51 - 60.28	$54.59 - 62.90	$54.62 - 63.04
Fiscal 2010	$32.60 - 39.82	$35.24 - 45.19	$37.24 - 47.38	$40.51 - 48.21

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The following table sets forth information in connection with purchases made by, or on behalf of, the Company or any affiliated purchaser of the Company, of shares of the Company s common stock during the quarterly period ended July 31, 2011.

Period	**Total Number of Shares Purchased (1)**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
May 1 - May 31, 2011		$		6,187,240
June 1 - June 30, 2011	900,000	$ 56.35	900,000	5,287,240
July 1 - July 31, 2011	291,558	$ 59.23	256,648	5,030,592
Total	1,191,558	$ 57.06	1,156,648	5,030,592

The Company initiated the purchase of an additional 162,900 shares for $9.2 million in July 2011 that are not included in Fiscal 2011 repurchases as the transactions did not settle until after fiscal year end. These repurchases will be included in Fiscal 2012 activity.

(1) On March 26, 2010, the Company announced that the Board of Directors authorized the repurchase of up to 8.0 million shares of common stock. This repurchase authorization, which is effective until terminated by the Board of Directors, replaced the existing authority that was authorized on March 31, 2006. There were no repurchases of common stock made outside of the Company s current repurchase authorization during the quarter ended July 31, 2011. However, the Total Number of Shares Purchased column of the table above includes 34,910 previously owned shares tendered by option holders in payment of the exercise price of options during the quarter. While not considered repurchases of shares, the Company does at times withhold shares that would otherwise be issued under equity-based awards to cover the withholding taxes due as a result of exercising stock options or payment of equity-based awards.

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The graph below compares the cumulative total stockholder return on the Company s common stock for the last five fiscal years with the cumulative total return of the Standard & Poor s 500 Stock Index and the Standard & Poor s Industrial Machinery Index. The graph and table assume the investment of $100 in each of the Company s common stock and the specified indexes at the beginning of the applicable period, and assume the reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Donaldson Company, Inc., the S&P 500 Index
and the S&P Industrial Machinery Index

	Year Ended July 31,					
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Donaldson Company, Inc.	$ 177.91	$ 150.95	$ 119.50	$ 139.95	$ 111.77	$ 100.00
S&P 500	112.56	94.07	82.64	103.25	116.13	100.00
S&P Industrial Machinery	143.55	119.05	90.70	118.06	129.23	100.00

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Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the fiscal years in the five-year period ended July 31, 2011 (in millions, except per share data):

	Year Ended July 31,				
	2011	2010	2009	2008	2007
Net sales	$ 2,294.0	$ 1,877.1	$ 1,868.6	$ 2,232.5	$ 1,918.8
Income from continuing operations	225.3	166.2	131.9	172.0	150.7
Diluted earnings per share	2.87	2.10	1.67	2.12	1.83
Total assets	1,726.1	1,499.5	1,334.0	1,548.6	1,319.0
Long-term obligations	205.7	256.2	253.7	176.5	129.0
Cash dividends declared per share	0.560	0.480	0.460	0.430	0.370
Cash dividends paid per share	0.535	0.470	0.455	0.420	0.360

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

Results of Operation

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto and other financial information included elsewhere in this report.

Overview

The Company is a worldwide manufacturer of filtration systems and replacement parts. The Company s core strengths are leading filtration technology, strong Customer relationships, and its global presence. The Company operates through two reporting segments, Engine Products and Industrial Products, and has a product mix including air and liquid filtration systems and exhaust and emission control products. As a worldwide business, the Company s results of operations are affected by conditions in the global economic environment. Under normal economic conditions, the Company s market diversification between its OEM and replacement parts Customers, its diesel engine and industrial end markets, and its North American and international end markets has helped to limit the impact of weakness in any one product line, market or geography on the consolidated results of the Company.

The Company reported record sales in Fiscal 2011 of $2,294.0 million, up 22.2 percent from $1,877.1 million in the prior year. The Company s results were positively impacted by foreign currency translation, which increased sales by $49.8 million. Excluding the current year impact of foreign currency translation, worldwide sales increased 19.6 percent.

Although net sales excluding foreign currency translation is not a measure of financial performance under GAAP, the Company believes it is useful in understanding its financial results and provides a comparable measure for understanding the operating results of the Company between different fiscal periods excluding the impact of foreign currency translation. The following is reconciliation to the most comparable GAAP financial measure of this non-GAAP financial measure (in millions):

	Year Ended July 31,	
	2011	2010
Net sales, excluding foreign currency translation	$ 2,244.2	$ 1,833.9
Foreign currency translation impact	49.8	43.2
Net sales	$ 2,294.0	$ 1,877.1

The Company also reported record net earnings in Fiscal 2011 of $225.3 million, an increase of 35.6 percent from $166.2 million in the prior year. The Company s net earnings were also positively impacted by foreign currency translation, which increased net earnings by $6.1 million. Excluding the current year impact of foreign currency translation, net earnings increased 31.9 percent.

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Although net earnings excluding foreign currency translation is not a measure of financial performance under GAAP, the Company believes it is useful in understanding its financial results and provides a comparable measure for understanding the operating results of the Company between different fiscal periods excluding the impact of foreign currency translation. The following is a reconciliation to the most comparable GAAP financial measure of this non-GAAP financial measure (in millions):

	Year Ended July 31, 2011	2010
Net earnings, excluding foreign currency translation	$ 219.2	$ 162.6
Foreign currency translation impact, net of tax	6.1	3.6
Net earnings	$ 225.3	$ 166.2

The Company reported diluted earnings per share of $2.87, a 36.7 percent increase from $2.10 in the prior year.

As discussed above, the Company recorded full year records for net sales and net earnings. In addition, operating margin was a record of 13.7 percent for the year. The Company s manufacturing plants and distribution centers executed very well and continued to make both capital and operating investments which, along with the Company s Continuous Improvement initiatives, resulted in a record year and puts the Company in a position to profitably support its Customers global growth plans. These improvements were slightly offset by increases in purchased raw material and freight costs.

Following is financial information for the Company s Engine and Industrial Products segments. Corporate and Unallocated includes corporate expenses determined to be non-allocable to the segments and interest income and expense. See further discussion of segment information in Note K of the Company s Notes to Consolidated Financial Statements.

	Engine Products	Industrial Products	Corporate & Unallocated	Total Company
	(thousands of dollars)			
2011				
Net sales	$ 1,440,495	$ 853,534	$	$ 2,294,029
Earnings before income taxes	211,255	123,871	(22,863)	312,263
2010				
Net sales	$ 1,126,007	$ 751,057	$	$ 1,877,064
Earnings before income taxes	155,833	91,084	(16,741)	230,176
2009				
Net sales	$ 1,027,685	$ 840,944	$	$ 1,868,629
Earnings before income taxes	85,896	87,427	(11,898)	161,425

For the twelve months ended July 31, 2010 and 2009, net sales reflect the reclassification of $31,636 and $25,724, respectively, earnings before income taxes reflect a reclassification of $5,360 and $2,099, respectively, as a result of an internal reorganization of Industrial Hydraulics from Industrial Products to Engine Products, which became effective August 1, 2010.

Many factors contributed to the Company s results for each of the Company s reporting segments for Fiscal 2011, including an improvement in global economic conditions, the Company s program of Continuous Improvement initiatives, new product introductions, emerging market growth, and the expansion of the Company s distribution capabilities.

In the Engine Products segment, the Company experienced increased sales in all end-markets and regions with the exception of Aerospace and Defense Products. The earnings improvement for the current fiscal year was primarily driven by better absorption of fixed costs due to improved volumes at our manufacturing plants, and Continuous Improvement initiatives. The Aftermarket Products sales increases were driven by continued improvement in equipment utilization rates in the mining, construction, and transportation industries globally. The Off-Road Product sales increase is driven by higher demand for agriculture and mining equipment, due to continued strong commodity prices and improved sales of heavy construction equipment, which was due to increased global infrastructure spending, especially in developing economies. On-Road Products sales improved as North America and Europe heavy truck build rates continued rebounding.

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In the Industrial Products segment, where many product lines are later economic cycle businesses, sales increased due to improving global economies leading to greater Customer demand. In Industrial Filtration Solutions Products, sales of new dust collection equipment and replacement filters continued to grow. Gas Turbine Products sales remained slow due to static Customer demand for large gas turbine power generation projects as a result of unchanged global power generation requirements. The increase in sales in Special Applications Products is due to strong sales in certain product lines serving the membrane, semiconductor, imaging, and venting end markets.

Following are net sales by product within both the Engine and Industrial Products segments:

	2011	2010 (thousands of dollars)	2009
Engine Products segment:			
Off-Road Products	$ 327,557	$ 222,329	$ 243,691
Aerospace and Defense Products	104,883	111,977	119,094
On-Road Products	127,107	81,874	71,958
Aftermarket Products*	861,393	691,899	561,846
Retrofit Emissions Products	19,555	17,928	31,096
Total Engine Products segment	1,440,495	1,126,007	1,027,685
Industrial Products segment:			
Industrial Filtration Solutions Products	507,646	423,050	477,908
Gas Turbine Products	154,726	150,131	206,760
Special Applications Products	191,162	177,876	156,276
Total Industrial Products segment	853,534	751,057	840,944
Total Company	$ 2,294,029	$ 1,877,064	$ 1,868,629

* Includes replacement part sales to the Company s OEM Customers.

Outlook

The Company forecasts continued expansion in many of its end markets, with higher growth in emerging economies. The Company forecasts its full year Fiscal 2012 EPS to be between $3.15 and $3.45.

The Company is planning its total Fiscal 2012 sales to be between $2.45 and $2.60 billion, or up about 7 to 15 percent from Fiscal 2011. Foreign currency translation is based on the Company s planned rates for the Euro at US$1.42 and 81 Yen to the US$.

The Company s full year Fiscal 2012 operating margin is forecasted to be 13.7 to 14.5 percent.

The Company s full year Fiscal 2012 tax rate is projected to be between 28 and 30 percent.

The Company projects that cash generated by operating activities will be between $275 and $305 million in Fiscal 2012. Capital spending in Fiscal 2012 is estimated to be approximately $100 million.

Engine Products The Company forecasts full year sales to increase 8 to 15 percent, including the impact of foreign currency translation.

The Company anticipates sales to its agricultural, mining, and construction equipment OEM Customers to grow at a more moderate pace in Fiscal 2012 compared to Fiscal 2011 s growth rate. The Company also expects to continue to benefit from increased market share on their Customers new Tier IV equipment platforms.

In the On-Road Products business, the Company believes build rates for heavy and medium duty trucks at their OEM Customers will be higher than Fiscal 2011, but are expected to grow at a more normal rate.

Sales of the Company s Aftermarket Products are expected to remain strong based on current utilization rates for both off-road equipment and on-road heavy trucks. The Company should also benefit as its distribution

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networks continue to expand in the emerging economies and from the increasing number of systems installed in the field with their proprietary filtration systems.

The Company forecasts modest sales gains in Aerospace and Defense Products for Fiscal 2012 as the continued slowdown in military spending is anticipated to be offset by increased commercial aerospace sales.

Industrial Products - The Company forecasts full year FY12 sales to increase 7 to 15 percent, including the impact of foreign currency translation.

The Company s Industrial Filtration Solutions Products sales are projected to increase 7 to 14 percent, assuming demand for new filtration equipment and replacement filters both continue to improve as general industrial capital activity and spending increase globally.

The Company anticipates its Gas Turbine Products sales to increase 14 to 22 percent due to improvement in the power generation market and ongoing strength in the oil and gas market segment.

Special Applications Products sales are projected to increase 2 to 9 percent primarily due to growing sales of their membranes products.

Fiscal 2011 Compared to Fiscal 2010

Engine Products Segment The Engine Products segment sells to OEMs in the construction, mining, agriculture, aerospace, defense, and truck markets and to independent distributors, OEM dealer networks, private label accounts, and large equipment fleets. Products include air filtration systems, exhaust and emissions systems, liquid filtration systems, and replacement filters.

Sales for the Engine Products segment were $1,440.5 million, an increase of 27.9 percent from $1,126.0 million in the prior year. Engine Products sales in the United States increased by 25.9 percent in Fiscal 2011 compared to Fiscal 2010. International Engine Products sales increased 29.8 percent from the prior year. The impact of foreign currency increased total sales by $31.5 million, or 2.8 percent. Earnings before income taxes as a percentage of Engine Products segment sales of 14.7 percent increased from 13.8 percent in the prior year. The earnings improvement for the current fiscal year was driven by better absorption of fixed costs due to improved volumes and the Company s ongoing Continuous Improvement initiatives, partially offset by increased commodity costs compared to the prior year. There were $1.9 million in restructuring expenses for the Engine Products segment in the prior year.

Worldwide sales of Off-Road Products were $327.6 million, an increase of 47.3 percent from $222.3 million in the prior year. Sales in the United States increased 35.8 percent over the prior fiscal year. Internationally, sales of Off-Road Products were up 56.0 percent from the prior year, with sales increasing in Asia and Europe by 58.2 percent and 55.6 percent, respectively. The Company s overall increase was driven by higher demand for agriculture, construction, and mining equipment due to continued strong commodity prices and improved sales of heavy construction equipment, which was due to increased global infrastructure spending, especially in developing economies. Off-Road Products sales in the U.S. also benefited from market share gains on new platforms that began production during calendar year 2011. These increases were slightly offset by U.S. residential and non-residential construction markets, which showed continued weakness, resulting in lower sales of the Company s products into those markets.

Worldwide sales of Aerospace and Defense Products were $104.9 million, a 6.3 percent decrease from $112.0 million in the prior year. Sales in the United States decreased 8.7 percent over the prior year as a result of slowdowns in U.S. military activity, which is causing an associated slowdown in government procurement spending for major programs. Internationally, sales of Aerospace and Defense Products increased 3.0 percent over the prior year. The international sales increased primarily due to market share gains resulting from improving the Company s Aerospace distribution capabilities in Europe.

Worldwide sales of On-Road Products were $127.1 million, an increase of 55.2 percent from $81.9 million in the prior year. On-Road Products sales in the United States increased 86.0 percent from the prior year. Class 8 build rates increased 47.8 percent and medium duty truck build rates increased 37.1 percent over the prior year. International On-Road Products sales increased 27.4 percent from the prior year, driven by increased sales in Europe of 45.6 percent. This increase is consistent with the increase in European build rates. The overall sales increase was a result of an increase in Customer truck build rates, higher content per truck, and a slightly higher market share.

Worldwide Engine Aftermarket Products sales of $861.4 million increased 24.5 percent from $691.9 million in the prior year. Sales in the United States increased 26.3 percent over the prior year. International sales increased 23.1

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percent from the prior year, primarily driven by sales increases in Asia, Latin America and Europe of 37.8 percent, 25.7 percent, and 13.5 percent, respectively. The sales increases in the U.S. and internationally were attributable to improved On-Road and Off-Road equipment utilization rates from a year ago, the Company s increased distribution and market share growth, and the continued increase in the percentage of equipment in the field that uses the Company s proprietary filtration systems.

Worldwide sales of Retrofit Emissions Products were $19.6 million, an increase of 9.1 percent from $17.9 million in the prior year. The Company s Retrofit Emissions Products sales are solely in the United States. Sales of Retrofit Emissions Products increased overall, but challenges still remain in the supply chain for certain components and delays in regulatory approval for certain of the Company s products have impacted the Company s sales.

Industrial Products Segment The Industrial Products segment sells to various industrial end-users, OEMs of gas-fired turbines, and OEMs and end-users requiring clean air. Products include dust, fume, and mist collectors, compressed air purification systems, air filtration systems for gas turbines, PTFE membrane based products, and specialized air filtration systems for applications, including computer hard disk drives.

Sales for the Industrial Products segment were $853.5 million, an increase of 13.6 percent from $751.1 million in the prior year. International Industrial Products sales increased 8.5 percent and sales in the United States increased 27.2 percent from the prior year. The impact of foreign currency increased sales by $18.3 million, or 2.4 percent. Earnings before income taxes as a percentage of Industrial Products segment sales of 14.5 percent increased from 12.1 percent in the prior year. The improvement in earnings as a percent of sales over the prior year was driven by better leverage of fixed operating costs and better plant utilization. Restructuring expenses in Fiscal 2011 were $0.7 million, a decrease from $8.3 million in Fiscal 2010.

Worldwide sales of Industrial Filtration Solutions Products of $507.6 million increased 20.0 percent from $423.1 million in the prior year. Sales in the United States, Europe and Asia increased 25.3 percent, 12.9 percent, and 26.2 percent, respectively. The increased sales were due to increased manufacturing activity, higher investment in capital equipment by manufacturers, and the continued strengthening of replacement filter sales due to utilization of existing equipment. North American general industrial activity remained strong as evidenced by a 110 percent increase in machine tool consumption in the United States during Fiscal 2011 as compared to Fiscal 2010.

Worldwide sales of Gas Turbine Products were $154.7 million, an increase of 3.1 percent from $150.1 million in the prior year. Gas Turbine Products sales are typically large systems and, as a result, the Company s shipments and revenues fluctuate from period to period. Sales slightly improved due to additional demand for smaller systems used in the oil and gas industry as a result of higher average oil prices and an increase in Aftermarket sales for replacement filters. These increases were slightly offset by a decline in the sales of air filtration systems for large turbines used for power generation.

Worldwide sales of Special Applications Products were $191.2 million, a 7.5 percent increase from $177.9 million in the prior year. International sales of Special Application Products increased 6.1 percent over the prior year, primarily in Europe, which increased 47.0 percent. Domestic Special Application Products sales increased 17.1 percent. The global sales increases were driven by strong sales in some of the Company s product lines serving the membrane, semiconductor, imaging, and venting end markets, partially offset by a slight decline in the Company s disk drive filter sales due to soft demand in the global end market for hard disk drives. Overall, the decline in disk drive sales is comparable with published disk drive build rates.

Consolidated Results The Company reported net earnings for Fiscal 2011 of $225.3 million compared to $166.2 million in Fiscal 2010, an increase of 35.6 percent. Diluted net earnings per share were $2.87, up 36.7 percent from $2.10 in the prior year. The Company s operating income of $315.3 million increased from prior year operating income of $238.2 million by 32.3 percent.

The table below shows the percentage of total operating income contributed by each segment for each of the last three fiscal years. Corporate and Unallocated includes corporate expenses determined to be non-allocable to the segments, interest income, and interest expense:

	2011	**2010**	**2009**
Engine Products	64.1%	63.1%	45.7%
Industrial Products	38.7%	37.8%	50.6%
Corporate and Unallocated	(2.8)%	(0.9)%	3.7%
Total Company	100.0%	100.0%	100.0%

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International operating income, prior to corporate expense allocations, totaled 80.2 percent of consolidated operating income in Fiscal 2011 as compared to 80.3 percent in Fiscal 2010. Total international operating income increased 32.1 percent from the prior year. This increase is attributable to increased Customer sales and the leverage of fixed costs with the higher volume of sales. The table below shows the percentage of total operating income contributed by each major geographic region for each of the last three fiscal years:

	2011	2010	2009
United States	19.8%	19.7%	22.1%
Europe	31.0%	24.6%	23.3%
Asia - Pacific	39.6%	45.3%	43.5%
Other	9.6%	10.4%	11.1%
Total Company	100.0%	100.0%	100.0%

Gross margin for Fiscal 2011 was 35.5 percent, an increase from 35.1 percent in the prior year. The improved gross margin was the result of better fixed cost absorption and the Company s ongoing Continuous Improvement initiatives of approximately $27 million, which were partially offset by increases in purchased raw material (steel and petrochemical based raw materials) of approximately $19 million, net of selective price increases to Customers. Within gross margin, the Company incurred minimal restructuring and asset impairment charges during the fiscal year, compared to $7.5 million last year. The fiscal 2010 charges were primarily related to a downsizing at a plant in Germany and included severance and asset impairments for the building and inventory.

Operating expenses for Fiscal 2011 were $498.5 million or 21.7 percent of sales, as compared to $420.5 million or 22.4 percent in the prior year. The decrease in operating expenses as a percentage of sales is driven by the higher volume of sales and benefits from the Company s Continuous Improvement initiatives. In addition, the current year included a $1.9 million reduction in restructuring expenses compared to Fiscal 2010. These benefits were partially offset by costs for our strategic operating investments totaling $13.9 million for the fiscal year and higher compensation related expenses such as incentive compensation of $9.2 million and pension expense of $5.1 million over the prior year.

Interest expense of $12.5 million increased $0.5 million from $12.0 million in the prior year. Net other income totaled $9.5 million in Fiscal 2011 up from $3.9 million in the prior year. The increase of $5.6 million over the prior year is primarily attributable to increased interest income of $2.0 million, increased earnings from non-consolidated joint ventures of $2.1 million, and increased royalty income of $1.4 million. Components of other income for Fiscal 2011 were as follows: interest income of $3.3 million, earnings from non-consolidated joint ventures of $4.1 million, royalty income of $8.7 million, partially offset by charitable donations of $1.1 million, foreign exchange losses of $4.5 million, and other miscellaneous income and expense items resulting in expenses of $1.0 million.

The effective tax rate for Fiscal 2011 was 27.9 percent compared to 27.8 percent in Fiscal 2010. The average underlying tax rate remained at 29.7 percent, while discrete items were also a consistent percentage of pre-tax profits. Fiscal 2010 contained $4.3 million of discrete tax benefits from the expiration of the statute of limitations at foreign subsidiaries. Fiscal 2011 contained $5.8 million of discrete tax benefits primarily from the release of reserves after the favorable conclusions of foreign tax audits, the expiration of statutes in various jurisdictions, and the positive impact of dividends from some foreign subsidiaries.

Total backlog at July 31, 2011, was $816.4 million, up 29.9 percent from the same period in the prior year. Backlog is one of many indicators of business conditions in the Company s markets. However, it is not always indicative of future results for a number of reasons, including short lead times in the Company s replacement parts businesses and the timing of the receipt of orders in many of the Company s Engine OEM and Industrial markets. In the Engine Products segment, total open order backlog increased 36.6 percent from the prior year. In the Industrial Products segment, total open order backlog increased 14.9 percent from the prior year. Because some of the change in backlog can be attributed to a change in the ordering patterns of the Company s Customers and/or the impact of foreign exchange translation rates, it may not necessarily correspond to future sales.

Fiscal 2010 Compared to Fiscal 2009

Engine Products Segment The Engine Products segment sells to OEMs in the construction, mining, agriculture, aerospace, defense, and truck markets and to independent distributors, OEM dealer networks, private label accounts, and large equipment fleets. Products include air filtration systems, exhaust and emissions systems, liquid filtration systems, and replacement filters.

Sales for the Engine Products segment were $1,126.0 million, an increase of 9.6 percent from $1,027.7 million in the prior year. Engine Products sales in the United States remained relatively flat in Fiscal 2010 compared to Fiscal 2009, increasing only 0.5 percent in the current fiscal year. International Engine Products sales increased 19.6 percent from the prior year. The impact of foreign currency increased sales by $24.9 million, or 2.4 percent. Earnings before income taxes as a percentage of Engine Products segment sales of 13.8 percent increased from 8.4 percent in the prior year. The earnings improvement for the current fiscal year was driven by a greater mix of higher-margin Aftermarket sales versus lower-margin first-fit product sales, better absorption of fixed manufacturing costs due to the increase in production volumes and benefits related to completed restructuring efforts and other Continuous Improvement initiatives. In addition, restructuring expenses for the Engine Products segment were down $5.3 million over the prior year, but this was more than offset by $6.2 million of increased warranty expenses related to Retrofit Emissions Products.

Worldwide sales of Off-Road Products were $222.3 million, a decrease of 8.8 percent from $243.7 million in the prior year. Sales in the United States decreased 15.0 percent to $95.1 million for the fiscal year. Internationally, sales of Off-Road Products were down 3.4 percent from the prior year, with sales decreasing in Europe by 10.7 percent, which were slightly offset by an increase in Off-Road sales in Asia of 7.4 percent. The Company s overall decrease was driven by a weakness in the early portion of the fiscal year with a gradual strengthening in end-markets in the last half of the fiscal year. This was evident in the gradual improvement of sales to OEMs during the last months of the fiscal year. The first half of the year was down primarily due to declines in spending in the residential and non-residential construction markets. The latter half of the year saw increases in the mining industry as a result of higher commodity prices and improvements in worldwide construction activity.

Worldwide sales of On-Road Products were $81.9 million, an increase of 13.8 percent from $72.0 million in the prior year. On-Road Products sales in the United States increased 3.4 percent from the prior year, primarily as a result of a slight market share improvement and higher content per truck. The Company performed better than the impact due to the change in truck build rates for the year in Class 8 truck builds, which decreased by 3.7 percent and medium duty truck build rates which increased 0.3 percent. International On-Road Products sales increased 25.2 percent from the prior year, driven by increased sales in Asia of 45.2 percent, as a result of increased truck exports by the Company s Japanese OEM Customers to higher growth emerging markets, and rebounding sales in Europe during the second half of the fiscal year.

Worldwide Engine Aftermarket Products sales of $691.9 million increased 23.1 percent from $561.8 million in the prior year. Sales in the United States increased 14.7 percent over the prior year. International sales increased 29.7 percent from the prior year, primarily driven by sales increases in Asia, Latin America and Europe of 36.9 percent, 28.9 percent, and 24.7 percent, respectively. The sales increases in the United States and internationally were driven by rebounds in equipment utilization rates in the mining, construction, and transportation industries. The Company also improved its distribution capabilities to be closer to and better serve its Customers and increased sales due to the Company s recent market share wins.

Worldwide sales of Retrofit Emissions Products were $17.9 million, a decrease of 42.3 percent from $31.1 million in the prior year. The Company s Retrofit Emissions Products sales are solely in the United States. Sales of Retrofit Emissions Products decreased as a result of continuing postponements in the availability of government grant money and delays and losses of regulatory approval for certain of the Company s products, including the DMF product.

Worldwide sales of Aerospace and Defense Products were $112.0 million, a 6.0 percent decrease from $119.1 million in the prior year. Sales in the United States decreased 9.0 percent over the prior year as a result of slowdowns in government procurement for major defense programs. Internationally, sales of Aerospace and Defense Products increased 8.0 percent over the prior year. The international sales increased primarily as a result of the startup of recent defense program wins.

Industrial Products Segment The Industrial Products segment sells to various industrial end-users, OEMs of gas-fired turbines, and OEMs and end-users requiring clean air. Products include dust, fume, and mist collectors, compressed air purification systems, air filtration systems for gas turbines, PTFE membrane based products, and specialized air filtration systems for applications including computer hard disk drives.

Sales for the Industrial Products segment were $751.1 million, a decrease of 10.7 percent from $840.9 million in the prior year. International Industrial Products sales decreased 9.0 percent, and sales in the United States decreased 15.0 percent from the prior year. The impact of foreign currency increased sales by $17.2 million, or 2.0 percent. Despite the 10.7 percent decrease in sales, earnings before income taxes as a percentage of Industrial Products segment sales were 12.1 percent, increasing from 10.4 percent in the prior year. The improvement in earnings as a percent of

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sales over the prior year was driven by better execution on large project shipments, increased plant utilization, improved product mix, and Continuous Improvement initiatives. Restructuring expenses in Fiscal 2010 were $8.3 million, a decrease from $10.1 million in Fiscal 2009.

Worldwide sales of Industrial Filtration Solutions Products of $423.1 million decreased 11.5 percent from $478.0 million in the prior year. Sales in the United States, Europe and Asia decreased 11.9 percent, 12.0 percent, and 8.0 percent, respectively. Sales in Mexico decreased 20.9 percent in Fiscal 2010 as compared to Fiscal 2009. Overall, the Company experienced weak sales conditions for its Industrial Filtration Solutions Products during the beginning of the fiscal year, with conditions improving towards the end of the fiscal year. The decreased sales in Europe and Asia were due to reduced demand for industrial dust collectors and compressed air purification systems due to the downturn in general manufacturing activity. Domestic sales decreased due to a decline in general industrial activity that did not stabilize until late in the fiscal year, as evidenced by a 19 percent drop in machine tool consumption in the United States during fiscal year 2010 as compared to fiscal year 2009.

Worldwide sales of Gas Turbine Products were $150.1 million, a decrease of 27.4 percent from $206.8 million in the prior year. Gas Turbine Products sales are typically large systems and, as a result, the Company s shipments and revenues fluctuate from period to period. Incoming orders declined 9 percent in Fiscal 2010 versus Fiscal 2009, a reflection of the reduced demand for power generation projects globally. Sales remained slow due to a deceleration in Customer demand for large gas turbine power generation projects as a result of the decrease in global electrical power requirements and also as a result of one Customer s increased utilization of its own internal filtration businesses.

Worldwide sales of Special Applications Products were $177.9 million, a 13.8 percent increase from $156.3 million in the prior year. Domestic Special Application Products sales increased 5.8 percent, driven by an increase in sales to industrial Customers of PTFE membranes. International sales of Special Application Products increased 15.1 percent over the prior year, primarily in Asia, which increased 18.6 percent. These international sales increases were driven by improved demand for the Company s Customers hard disk drives as the end-markets for computers, data storage devices, and other electronic products rebounded. Overall, the Company s market growth is comparable with published disk drive build rates.

Consolidated Results The Company reported net earnings for Fiscal 2010 of $166.2 million compared to $131.9 million in Fiscal 2009, an increase of 26.0 percent. Diluted net earnings per share were $2.10, up 25.7 percent from $1.67 in the prior year. The Company s operating income of $238.2 million increased from prior year operating income of $170.0 million by 40.2 percent.

The table below shows the percentage of total operating income contributed by each segment for each of the last three fiscal years. Corporate and Unallocated includes corporate expenses determined to be non-allocable to the segments, interest income, and interest expense:

	2010	**2009**	**2008**
Engine Products	63.1%	45.7%	61.1%
Industrial Products	37.8%	50.6%	42.1%
Corporate and Unallocated	(0.9)%	3.7%	(3.2)%
Total Company	100.0%	100.0%	100.0%

International operating income, prior to corporate expense allocations, totaled 80.3 percent of consolidated operating income in Fiscal 2010 as compared to 77.9 percent in Fiscal 2009. Total international operating income increased 44.6 percent from the prior year. This increase is attributable to increased Customer sales and stronger foreign currencies. The table below shows the percentage of total operating income contributed by each major geographic region for each of the last three fiscal years:

	2010	**2009**	**2008**
United States	19.7%	22.1%	10.6%
Europe	24.6%	23.3%	43.3%
Asia - Pacific	45.3%	43.5%	37.9%
Other	10.4%	11.1%	8.2%
Total Company	100.0%	100.0%	100.0%

Gross margin for Fiscal 2010 was 35.1 percent, an increase from 31.6 percent in the prior year. The improved gross margin was the result of improved fixed cost absorption, a higher mix of replacement filter sales, savings from restructuring actions and ongoing Continuous Improvement initiatives. Within gross margin, the Company incurred

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$7.5 million in restructuring and asset impairment charges during the fiscal year, compared to $10.1 million last year. This year s charges were primarily related to a downsizing at a plant in Germany and included severance and asset impairments for the building and inventory.

Operating expenses for Fiscal 2010 were $420.5 million or 22.4 percent of sales, as compared to $419.8 million or 22.5 percent in the prior year. Operating expenses as a percent of sales was relatively flat and included $15.1 million of higher incentive compensation expense partially offset by a $5.0 million decrease in restructuring costs as compared to the prior year. During the fiscal year the Company increased warranty accruals due to specific warranty matters in our Retrofit Emissions Products group, recording an expense of $6.2 million for this matter during the year.

Interest expense of $12.0 million decreased $5.0 million from $17.0 million in the prior year as a result of reduced debt levels and lower interest rates throughout the year. Net other income totaled $3.9 million in Fiscal 2010 down from $8.5 million in the prior year. Components of other income for Fiscal 2010 were as follows: interest income of $1.3 million, earnings from non-consolidated joint ventures of $2.0 million, royalty income of $7.2 million, charitable donations of $1.6 million, foreign exchange losses of $4.6 million, and other miscellaneous income and expense items resulting in expenses of $0.4 million.

The effective tax rate for Fiscal 2010 was 27.8 percent compared to 18.3 percent in Fiscal 2009. The increase in effective tax rate is primarily due to a decrease in discrete tax benefits. Fiscal 2009 contained $19.6 million of discrete tax benefits, which predominantly occurred in the second quarter, and primarily related to changes to uncertain tax position reserves in connection with the effective settlements of court cases and examinations in various jurisdictions covering various years. Fiscal 2010 contained $4.3 million of discrete tax benefits, primarily recorded in the second quarter, from the expiration of the statute of limitations at foreign subsidiaries and other discrete items. Without consideration of discrete items, the average underlying tax rate improved over the prior year to 29.7 percent from 30.4 percent mainly due to the mix of earnings between tax jurisdictions.

Total backlog at July 31, 2010, was $628.3 million, up 19.0 percent from the same period in the prior year. Backlog is one of many indicators of business conditions in the Company s markets. However, it is not always indicative of future results for a number of reasons, including short lead times in the Company s replacement parts businesses and the timing of receipt of orders in many of the Company s Engine OEM and Industrial markets. In the Engine Products segment, total open order backlog increased 31.5 percent from the prior year. In the Industrial Products segment, total open order backlog decreased 1.8 percent from the prior year. Because some of the change in backlog can be attributed to a change in the ordering patterns of the Company s Customers and/or the impact of foreign exchange translation rates, it may not necessarily correspond to future sales.

Liquidity and Capital Resources

Financial Condition At July 31, 2011, the Company s capital structure was comprised of $61.0 million of current debt, $205.7 million of long-term debt and $934.7 million of shareholders equity. The Company had cash and cash equivalents of $273.5 million at July 31, 2011. The ratio of long-term debt to total capital was 18.0 percent and 25.5 percent at July 31, 2011 and 2010, respectively.

Total debt outstanding decreased $45.0 million during the year to $266.7 million outstanding at July 31, 2011. Short-term borrowings outstanding at the end of the year were $36.9 million less than the prior year, and long-term debt decreased $8.1 million (including current maturities) from the prior year.

The following table summarizes the Company s cash obligations as of July 31, 2011, for the years indicated (thousands of dollars):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-term debt obligations	$ 247,037	$ 45,595	$ 101,442	$	$ 100,000
Capital lease obligations	796	428	360	8	
Interest on long-term debt obligations	49,508	11,946	19,752	10,960	6,850
Operating lease obligations	26,579	10,546	12,196	3,006	831
Purchase obligations [(1)]	246,872	236,709	9,339	824	
Pension and deferred compensation [(2)]	78,324	5,070	10,533	10,372	52,349
Total [(3)]	$ 649,116	$ 310,294	$ 153,622	$ 25,170	$ 160,030

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(1) Purchase obligations consist primarily of inventory, tooling, contract employment services and capital expenditures. The Company s purchase orders for inventory are based on expected Customer demand, and quantities and dollar volumes are subject to change.

(2) Pension and deferred compensation consists of long-term pension liabilities and salary and bonus deferrals elected by certain executives under the Company s deferred compensation plan. Deferred compensation balances earn interest based on a Treasury bond rate as defined by the plan and are payable at the election of the participants.

(3) In addition to the above contractual obligations, the Company may be obligated for additional cash outflows of $21.5 million of potential tax obligations, including accrued interest and penalties. The payment and timing of any such payments is affected by the ultimate resolution of the tax years that are under audit or remain subject to examination by the relevant taxing authorities, and are therefore not currently capable of estimation by period.

The Company s general funding policy for its pension plans is to make at least the minimum contributions as required by applicable regulations. Additionally, the Company may elect to make additional contributions up to the maximum tax deductible contribution. As such, the Company made contributions of $20.6 million to its U.S. pension plans in Fiscal 2011. There is no minimum funding requirement for the Company s U.S. pension plans for Fiscal 2012. The Company is currently evaluating whether or not a U.S. pension contribution will be made in Fiscal 2012. The Company made contributions of $7.1 million to its non-U.S. pension plans in Fiscal 2011 and estimates that it will contribute approximately $4.7 million in Fiscal 2012 based upon the local government prescribed funding requirements. Future estimates of the Company s pension plan contributions may change significantly depending on the actual rate of return on plan assets, discount rates, and regulatory requirements.

The Company has a five-year, multi-currency revolving facility with a group of banks under which the Company may borrow up to $250 million. This facility matures on April 2, 2013. The agreement provides that loans may be made under a selection of currencies and rate formulas including Base Rate Advances or Off Shore Rate Advances. The interest rate on each advance is based on certain market interest rates and leverage ratios. Facility fees and other fees on the entire loan commitment are payable over the duration of this facility. There was nothing outstanding at July 31, 2011 and $50.0 million outstanding at July 31, 2010. At July 31, 2011 and 2010, $238.6 million and $180.0 million, respectively, was available for further borrowing under such facilities. The amount available for further borrowing reflects a reduction for issued standby letters of credit, as discussed below. The weighted average interest rate on short-term borrowings outstanding at July 31, 2010 was 0.6 percent. Our multi-currency revolving facility contains debt covenants specifically related to maintaining a certain interest coverage ratio and a certain leverage ratio as well as other covenants that under certain circumstances can restrict our ability to incur additional indebtedness, make investments and other restricted payments, create liens, and sell assets. As of July 31, 2011, the Company was in compliance with all such covenants.

The Company has three uncommitted credit facilities in the United States, which provide unsecured borrowings for general corporate purposes. At July 31, 2011 and 2010, there was $56.9 million and $70.0 million available for use, respectively. There was $13.1 million outstanding at July 31, 2011 and nothing outstanding at July 31, 2010.

The Company has a 100 million program for issuing treasury notes for raising short, medium, and long-term financing for its European operations. There was nothing outstanding on this program at July 31, 2011 or 2010. Additionally, the Company s European operations have lines of credit with an available limit of 45.6 million. There was nothing outstanding on these lines of credit as of July 31, 2011 or 2010.

Other international subsidiaries may borrow under various credit facilities. There was nothing outstanding under these credit facilities as of July 31, 2011 or 2010.

Also, at July 31, 2011 and 2010, the Company had outstanding standby letters of credit totaling $11.4 million, upon which no amounts had been drawn. The letters of credit guarantee payment to third parties in the event the Company is in breach of a specified bond financing agreement and insurance contract terms as detailed in each letter of credit.

During Fiscal 2011, credit in the global credit markets became more accessible than in recent years and market interest rates remained low. The Company believes that its current financial resources are sufficient to continue financing its operations for the next twelve months. There can be no assurance, however, that the cost or availability of future borrowings will not be impacted by future capital market disruptions.

Certain note agreements contain debt covenants related to working capital levels and limitations on indebtedness. As of July 31, 2011, the Company was in compliance with all such covenants. The Company currently expects to remain in compliance with these covenants.

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Shareholders equity increased $188.1 million in Fiscal 2011 to $934.7 million at July 31, 2011. The increase was primarily due to the current year earnings of $225.3 million, changes to foreign currency translation of $72.5 million, $13.8 million of stock options exercised, $12.2 million in tax reductions related to employee plans, $7.2 million (net of tax) of adjustments related to the pension liability, and $6.5 million of stock option expense. These increases were partially offset by $108.9 million of treasury stock repurchases and $42.8 million of dividend declarations.

Cash Flows During Fiscal 2011, $246.1 million of cash was generated from operating activities, compared with $203.0 million in Fiscal 2010. The increase in cash generated from operating activities of $43.1 million was primarily attributable to the Company s net earnings increase of $59.1 million over the prior year, partially offset by changes in working capital needs resulting from increased inventory to support increased demand and a larger discretionary pension contribution than the prior year. Cash flow generated by operations and cash on hand was used primarily to support $59.9 million of net capital expenditures, $108.9 million for stock repurchases, $41.0 million for dividend payments and to reduce total debt by $50.0 million. Cash and cash equivalents increased $41.5 million during Fiscal 2011.

Net capital expenditures for property, plant and equipment totaled $59.9 million in Fiscal 2011 and $42.7 million in Fiscal 2010. Net capital expenditures is comprised of purchases of property, plant, and equipment of $60.6 million and $43.1 million in Fiscal 2011 and 2010, respectively, partially offset by proceeds from the sale of property, plant and equipment of $0.8 million in Fiscal 2011 and $0.5 million in Fiscal 2010. Fiscal 2011 capital expenditures primarily related to new plant capacity additions, productivity enhancing investments at various plants worldwide, and tooling to manufacture new products.

Capital spending in Fiscal 2012 is planned to be approximately $100.0 million. It is anticipated that Fiscal 2012 capital expenditures will be financed primarily by cash on hand, cash generated from operations, and existing lines of credit as needed.

The Company expects that cash generated by operating activities will be between $275 and $305 million in Fiscal 2012. At July 31, 2011, the Company had cash of $273.5 million, which exists at subsidiaries outside of the United States. The Company also had $295.5 million available under existing credit facilities in the United States, 145.6 million or $209.7 million, available under existing credit facilities in Europe and $67.5 million available under various credit facilities and currencies in Asia and the rest of the world. The Company believes that the combination of existing cash, available credit under existing credit facilities, and the expected cash generated by operating activities will be adequate to meet cash requirements for Fiscal 2012, including debt repayment, issuance of anticipated dividends, possible share repurchase activity, and capital expenditures.

Dividends The Company s dividend policy is to maintain a payout ratio, which allows dividends to increase with the long-term growth of earnings per share. The Company s dividend payout ratio target is 20 percent to 30 percent of the average earnings per share of the last three years. Including the Company s declaration on July 29, 2011 of a $0.15 per share dividend to be paid, the dividend payout ratio was 28.1 percent on July 31, 2011.

Share Repurchase Plan The Board of Directors authorized the repurchase of 8.0 million shares of common stock under the stock repurchase plan dated March 26, 2010. In Fiscal 2011, the Company repurchased 2.0 million shares of common stock for $108.9 million, or 2.5 percent of its diluted outstanding shares, at an average price of $55.67 per share. The Company repurchased 1.7 million shares for $66.7 million in Fiscal 2010. The Company repurchased 0.8 million shares for $32.8 million in Fiscal 2009. As of July 31, 2011, the Company had remaining authorization to repurchase 5.0 million shares pursuant to the current authorization. The Company initiated the purchase of an additional 162,900 shares in July 2011 for $9.2 million that are not included in Fiscal 2011 repurchases as the transactions did not settle until after fiscal year end. These repurchases will be included in Fiscal 2012 activity.

Off-Balance Sheet Arrangements The Company does not have any off-balance sheet arrangements, with the exception of the guarantee of 50 percent of certain debt of its joint venture, AFSI as further discussed in Note L of the Company s Notes to Consolidated Financial Statements. As of July 31, 2011, the joint venture had $24.6 million of outstanding debt. The Company does not believe that this guarantee will have a current or future effect on its financial condition, results of operation, liquidity or capital resources.

New Accounting Standards In December 2010, the FASB updated the accounting guidance relating to the annual goodwill impairment test. The updated guidance requires companies to perform the second step of the impairment test to measure the amount of impairment loss, if any, when it is more likely than not that goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. In considering whether it is more likely than not that goodwill impairment exists, an entity shall evaluate whether there are adverse qualitative factors. The updated guidance

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is effective for the Company beginning in the first quarter of fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In May 2011, the FASB updated the accounting guidance related to fair value measurements. The updated guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The updated guidance is effective for the Company beginning in the third quarter of fiscal year 2012. The Company is currently evaluating the impact of adoption of this accounting guidance on its consolidated financial statements.

In June 2011, the FASB updated the disclosure requirements for comprehensive income. The updated guidance requires companies to disclose the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance does not affect how earnings per share is calculated or presented. The updated guidance is effective for the Company beginning in the third quarter of fiscal year 2012. The Company is currently evaluating the impact of adoption of this accounting guidance on its consolidated financial statements.

Market Risk

The Company s market risk includes the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. The Company manages foreign currency market risk from time to time through the use of a variety of financial and derivative instruments. The Company does not enter into any of these instruments for trading purposes to generate revenue. Rather, the Company s objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates. The Company uses forward exchange contracts and other hedging activities to hedge the U.S. dollar value resulting from existing recognized foreign currency denominated asset and liability balances and also for anticipated foreign currency transactions. The Company also naturally hedges foreign currency through its production in the countries in which it sells its products. The Company s market risk on interest rates is the potential decrease in fair value of long-term debt resulting from a potential increase in interest rates. See further discussion of these market risks below and in Note E of the Notes to Consolidated Financial Statements.

Foreign Currency During Fiscal 2011, the U.S. dollar was generally weaker than Fiscal 2010 compared to many of the currencies of the foreign countries in which the Company operates. The overall weakness of the dollar had a positive impact on the Company s international net sales results because the foreign denominated revenues translated into more U.S. dollars.

It is not possible to determine the true impact of foreign currency translation changes. However, the direct effect on reported net sales and net earnings can be estimated. For the year ended July 31, 2011, the impact of foreign currency translation resulted in an overall increase in reported net sales of $49.8 million, operating expenses of $9.7 million and reported net earnings of $6.1 million. Foreign currency translation had a positive impact in most regions around the world. In Europe, the weaker U.S. dollar relative to the euro and British pound resulted in a total increase of $8.1 million in reported net sales. The weaker U.S. dollar relative to the Japanese yen, Australian dollar, Mexican peso, Chinese renminbi, South African rand, and Thai baht also had a positive impact on foreign currency translation, with an increase in reported net sales of $15.6 million, $8.8 million, $5.0 million, $4.8 million, $4.4 million, and $4.1 million, respectively, and an increase in reported net earnings of $1.1 million, $1.2 million, $0.6 million, $0.9 million, $0.4 million, and $1.0 million, respectively.

The Company maintains significant assets and operations in Europe, Asia-Pacific, South Africa, and Mexico, resulting in exposure to foreign currency gains and losses. A portion of the Company s foreign currency exposure is naturally hedged by incurring liabilities, including bank debt, denominated in the local currency in which the Company s foreign subsidiaries are located.

The foreign subsidiaries of the Company generally purchase the majority of their input costs and then sell to many of their Customers in the same local currency.

The Company may be exposed to cost increases relative to local currencies in the markets to which it sells. To mitigate such adverse trends, the Company, from time to time, enters into forward exchange contracts and other hedging activities. Additionally, foreign currency positions are partially offsetting and are netted against one another to reduce exposure.

Some products made in the United States are sold abroad. As a result, sales of such products are affected by the value of the U.S. dollar relative to other currencies. Any long-term strengthening of the U.S. dollar could depress these sales. Also, competitive conditions in the Company s markets may limit its ability to increase product pricing in the face of adverse currency movements.

Interest The Company s exposure to market risks for changes in interest rates relates primarily to its short-term investments, short-term borrowings, and interest rate swap agreements as well as the potential increase in fair value of long-term debt resulting from a potential decrease in interest rates. The Company has no earnings or cash flow exposure due to market risks on its long-term debt obligations as a result of the fixed-rate nature of the debt. However, interest rate changes would affect the fair market value of the debt. As of July 31, 2011, the estimated fair value of long-term debt with fixed interest rates was $268.3 million compared to its carrying value of $247.0 million. The fair value is estimated by discounting the projected cash flows using the rate that similar amounts of debt could currently be borrowed. As of July 31, 2011, the Company s financial liabilities with exposure to changes in interest rates consisted mainly of $13.1 million of short-term debt outstanding. Assuming a hypothetical increase of one-half percent in short-term interest rates, with all other variables remaining constant, interest expense would have increased $0.4 million in Fiscal 2011.

Pensions The Company is exposed to market return fluctuations on its qualified defined benefit pension plans. Although the market value of these assets increased in Fiscal 2011, we adjusted our long term rate of return from 8.0 percent to 7.75 percent on our U.S. plans and from a weighted average of 6.17 percent to 6.03 percent on our non-U.S. plans to reflect our future expectation for returns. In addition, we adjusted our discount rate used to value our pension obligation for our U.S. plans from 5.25 percent to 4.91 percent and from 5.17 percent to 5.36 percent for the non-U.S plans. Our plans were underfunded by $30.5 million at July 31, 2011, since the projected benefit obligation exceeded the fair value of the plan assets.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Management bases these estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the recorded values of certain assets and liabilities. The Company believes its use of estimates and underlying accounting assumptions adheres to U.S. GAAP and is consistently applied. Valuations based on estimates and underlying accounting assumptions are reviewed for reasonableness on a consistent basis throughout the Company. Management believes the Company s critical accounting policies that require more significant judgments and estimates used in the preparation of its consolidated financial statements and that are the most important to aid in fully understanding its financial results are the following:

Revenue recognition, warranty and allowance for doubtful accounts Revenue is recognized when both product ownership and the risk of loss have transferred to the Customer and the Company has no remaining obligations. The Company records estimated discounts and rebates as a reduction of sales in the same period revenue is recognized. Accruals for warranties on products sold are recorded based on historical return percentages and specific product recall campaigns. Allowances for doubtful accounts are estimated by management based on evaluation of potential losses related to Customer receivable balances. The Company determines the allowance based on historical write-off experience in the industry, regional economic data, and evaluation of specific Customer accounts for risk of loss. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance when the Company feels it is probable the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its Customers. The establishment of this reserve requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though management considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have an effect on reserve balances required.

Goodwill and other intangible assets Goodwill is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment assessments for its reporting units and uses a discounted cash flow model based on management s judgments and assumptions to determine the estimated fair value. An impairment loss generally would be recognized when the carrying amount of the reporting unit s net assets exceeds the estimated fair value of the reporting unit. The Company performed an impairment assessment during the third quarter of Fiscal 2011 to satisfy its annual impairment requirement. The impairment assessment in the third quarter indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and, as such, no impairment existed at that time. Other intangible assets with definite lives continue to be amortized over their estimated useful lives. Definite lived intangible

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assets are also subject to impairment assessments. A considerable amount of management judgment and assumptions are required in performing the impairment assessments, principally in determining the fair value of each reporting unit. While the Company believes its judgments and assumptions are reasonable, different assumptions could change the estimated fair values and, therefore, impairment charges could be required.

Income taxes As part of the process of preparing the Company s Consolidated Financial Statements, management is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company s Consolidated Balance Sheet. These assets and liabilities are evaluated by using estimates of future taxable income streams and the impact of tax planning strategies. Management assesses the likelihood that deferred tax assets will be recovered from future taxable income and to the extent management believes that recovery is not likely, a valuation allowance is established. To the extent that a valuation allowance is established or increased, an expense within the tax provision is included in the statement of operations. Reserves are also estimated for uncertain tax positions that are currently unresolved. The Company routinely monitors the potential impact of such situations and believes that it is properly reserved. Valuations related to tax accruals and assets can be impacted by changes to tax codes, changes in statutory tax rates and the Company s future taxable income levels. As of July 31, 2011, the liability for unrecognized tax benefits, accrued interest and penalties was $21.5 million.

Employee Benefit Plans The Company incurs expenses relating to employee benefits such as non-contributory defined benefit pension plans, and postretirement health care benefits. In accounting for these employment costs, management must make a variety of assumptions and estimates including mortality rates, discount rates, overall Company compensation increases, expected return on plan assets, and health care cost trend rates. The Company considers historical data as well as current facts and circumstances and uses a third-party specialist to assist management in determining these estimates.

To develop the assumption regarding the expected long-term rate of return on assets for its U.S. pension plans, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.75 percent long-term rate of return on assets assumption as of July 31, 2011 for developing the Fiscal 2012 expense for the Company s U.S. pension plans. In addition, we lowered our discount rate used to value our pension obligation for our U.S. plans from 5.25 percent to 4.91 percent. The expected long-term rate of return on assets assumption for the plans outside the U.S. reflects the investment allocation and expected total portfolio returns specific to each plan and country.

Reflecting the relatively long-term nature of the plans obligations, approximately 45 percent of the plans assets are invested in equity securities, 30 percent in alternative investments (funds of hedge funds), 10 percent in real assets (investments into funds containing commodities and real estate), 10 percent in fixed income, and 5 percent in private equity. Within equity securities, the Company targets an allocation of 15 percent international, 15 percent equity long / short, 10 percent small cap, and 5 percent large cap.

A one percent change in the expected long-term rate of return on U.S. plan assets, from 8.0 percent, would have changed the Fiscal 2011 annual pension expense by approximately $2.7 million. The expected long-term rate of return on assets assumption for the plans outside the U.S. follows the same methodology as described above but reflects the investment allocation and expected total portfolio returns specific to each plan and country.

The Company s objective in selecting a discount rate for its pension plans is to select the best estimate of the rate at which the benefit obligations could be effectively settled on the measurement date, taking into account the nature and duration of the benefit obligations of the plan. In making this best estimate, the Company looks at rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the benefits. This process includes assessing the universe of bonds available on the measurement date with a quality rating of Aa or better. Similar appropriate benchmarks are used to determine the discount rate for the non-U.S. plans. As of the measurement date of July 31, 2011, the Company decreased its discount rate for the U.S. pension plans to 4.91 percent from 5.25 percent as of July 31, 2010. The decrease of 34 basis points is consistent with published bond indices. The change increased the Company s U.S. projected benefit obligation as of July 31, 2011 by approximately $7.2 million and is expected to increase pension expense in fiscal year 2012 by approximately $0.5 million. The rates discussed above are weighted average rates as we have multiple plans both in the U.S. and internationally.

Safe Harbor Statement under the Securities Reform Act of 1995

The Company, through its management, may make forward-looking statements reflecting the Company s current views with respect to future events and financial performance. These forward-looking statements, which may be included in reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), in press releases and in other documents and materials as well as in written or oral statements made by or on behalf of the Company, are subject to certain risks and uncertainties, including those discussed in Item 1A of this Form 10-K, which could cause actual results to differ materially from historical results or those anticipated. The words or phrases will likely result, are expected to, will continue, estimate, project, believe, expect, anticipate, fo similar expressions are intended to identify forward-looking statements within the meaning of Section 21e of the Exchange Act and Section 27A of the Securities Act of 1933, as amended, as enacted by the Private Securities Litigation Reform Act of 1995 (PSLRA). In particular the Company desires to take advantage of the protections of the PSLRA in connection with the forward-looking statements made in this Annual Report on Form 10-K, including those contained in the Outlook section of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date such statements are made. In addition, the Company wishes to advise readers that the factors listed in Item 1A of this Form 10-K, as well as other factors, could affect the Company s performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed. These factors include, but are not limited to risks associated with: world economic factors and the ongoing economic uncertainty, the reduced demand for hard disk drive products with the increased use of flash memory, 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, environmental laws and regulations, including regulatory approvals for Retrofit Emission Products, governmental laws and regulations, including the impact of the various economic stimulus and financial reform measures being implemented, 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 Item 1A of this Report on Form 10-K. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk disclosure appears in Management s Discussion and Analysis on page 21under Market Risk.

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Item 8. Financial Statements and Supplementary Data

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of July 31, 2011. The Company s independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Company s internal control over financial reporting as of July 31, 2011, as stated in this report which follows in Item 8 of this Form 10-K.

/s/ William M. Cook	/s/ Thomas R. VerHage
William M. Cook Chief Executive Officer September 23, 2011	Thomas R. VerHage Chief Financial Officer September 23, 2011

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Donaldson Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related statements of earnings, shareholders equity and cash flows present fairly, in all material respects, the financial position of Donaldson Company, Inc. and its subsidiaries at July 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2011, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion the financial statement schedule appearing under item 15(II) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
September 23, 2011

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Consolidated Statements of Earnings
Donaldson Company, Inc. and Subsidiaries

	Year ended July 31, 2011	2010	2009
	(thousands of dollars, except share and per share amounts)		
Net sales	$ 2,294,029	$ 1,877,064	$ 1,868,629
Cost of sales	1,480,233	1,218,316	1,278,923
Gross margin	813,796	658,748	589,706
Selling, general and administrative	443,227	376,018	379,108
Research and development	55,286	44,486	40,643
Operating income	315,283	238,244	169,955
Interest expense	12,525	11,975	17,018
Other income, net	(9,505)	(3,907)	(8,488)
Earnings before income taxes	312,263	230,176	161,425
Income taxes	86,972	64,013	29,518
Net earnings	$ 225,291	$ 166,163	$ 131,907
Weighted average shares - basic	77,196,370	77,848,528	77,967,141
Weighted average shares - diluted	78,598,459	79,177,772	79,199,838
Net earnings per share - basic	$ 2.92	$ 2.13	$ 1.69
Net earnings per share - diluted	$ 2.87	$ 2.10	$ 1.67

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Consolidated Balance Sheets
Donaldson Company, Inc. and Subsidiaries

	At July 31, 2011		At July 31, 2010	
	(thousands of dollars, except share amounts)			
Assets				
Current assets				
Cash and cash equivalents	$	273,494	$	232,000
Accounts receivable, less allowance of $6,908 and $6,315		445,700		358,917
Inventories, net		271,476		203,631
Deferred income taxes		29,805		22,054
Prepaids and other current assets		46,107		43,613
Total current assets	$	1,066,582	$	860,215
Property, plant and equipment, net		391,502		365,892
Goodwill		171,741		165,315
Intangible assets, net		53,496		58,292
Other assets		42,772		49,792
Total assets	$	1,726,093	$	1,499,506
Liabilities and shareholders equity				
Current liabilities				
Short-term borrowings	$	13,129	$	50,000
Current maturities of long-term debt		47,871		5,536
Trade accounts payable		215,918		165,907
Accrued employee compensation and related taxes		86,974		73,632
Accrued liabilities		64,008		40,546
Other current liabilities		68,344		53,635
Total current liabilities		496,244		389,256
Long-term debt		205,748		256,192
Deferred income taxes		11,196		7,076
Other long-term liabilities		78,194		100,349
Total liabilities		791,382		752,873
Commitments and contingencies (Note N)				
Shareholders equity				
Preferred stock, $1.00 par value, 1,000,000 shares authorized, none issued				
Common stock, $5.00 par value, 120,000,000 shares authorized, 88,643,194 shares issued in 2011 and 2010		443,216		443,216
Retained earnings		925,542		744,247
Stock compensation plans		24,736		22,326
Accumulated other comprehensive income (loss)		40,027		(40,486)
Treasury stock, 13,245,864 and 12,222,381 shares in 2011 and 2010, at cost		(498,810)		(422,670)
Total shareholders equity		934,711		746,633
Total liabilities and shareholders equity	$	1,726,093	$	1,499,506

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Consolidated Statements of Cash Flows
Donaldson Company, Inc. and Subsidiaries

	2011	2010	2009
		Year ended July 31, (thousands of dollars)	
Operating Activities			
Net earnings	$ 225,291	$ 166,163	$ 131,907
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	60,491	59,232	58,597
Equity in losses (earnings) of affiliates, net of distributions	(2,585)	183	(982)
Deferred income taxes	1,957	3,025	(4,726)
Tax benefit of equity plans	(9,873)	(4,625)	(2,663)
Stock compensation plan expense	9,234	8,253	1,900
Other, net	(11,991)	(6,110)	(7)
Changes in operating assets and liabilities, net of acquired businesses			
Accounts receivable	(62,274)	(79,308)	116,983
Inventories	(52,999)	(25,826)	66,145
Prepaids and other current assets	7,233	(3,970)	(11,489)
Trade accounts payable and other accrued expenses	81,571	85,988	(78,738)
Net cash provided by operating activities	246,055	203,005	276,927
Investing Activities			
Purchases of property, plant and equipment	(60,633)	(43,149)	(46,080)
Proceeds from sale of property, plant and equipment	782	490	511
Acquisitions, investments and divestitures of affiliates	3,493	(250)	(74,318)
Net cash used in investing activities	(56,358)	(42,909)	(119,887)
Financing Activities			
Proceeds from long-term debt	6,774	531	80,471
Repayments of long-term debt	(13,353)	(5,508)	(7,745)
Change in short-term borrowings	(36,603)	20,713	(103,695)
Purchase of treasury stock	(108,929)	(66,696)	(32,773)
Dividends paid	(41,013)	(36,242)	(35,166)
Tax benefit of equity plans	9,873	4,625	2,663
Exercise of stock options	15,899	13,053	4,476
Net cash used in financing activities	(167,352)	(69,524)	(91,769)
Effect of exchange rate changes on cash	19,149	(2,259)	(4,941)
Increase in cash and cash equivalents	41,494	88,313	60,330
Cash and cash equivalents, beginning of year	232,000	143,687	83,357
Cash and cash equivalents, end of year	$ 273,494	$ 232,000	$ 143,687
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	$ 57,688	$ 40,032	$ 41,196
Interest	12,852	11,446	14,861

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Consolidated Statements of Changes in Shareholders Equity
Donaldson Company, Inc. and Subsidiaries

	Common Stock	Additional Paid-in Capital	Retained Earnings	Stock Compensation Plans	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	(thousands of dollars, except per share amounts)						
Balance July 31, 2008	$ 443,216	$	$ 522,476	$ 27,065	$ 112,883	$ (365,605)	$ 740,035
Comprehensive income							
Net earnings							