

DONALDSON CO INC
Form 10-K
September 26, 2014
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended July 31, 2014 or

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
(State or other jurisdiction of incorporation or organization)

41-0222640
(I.R.S. Employer Identification No.)

1400 West 94th Street, Minneapolis, Minnesota
(Address of principal executive offices)

55431
(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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. Yes 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. Yes 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. Yes 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 shorter period that the registrant was required to submit and post such files) Yes No

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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.

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of January 31, 2014, 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 \$5,927,321,901 (based on the closing price of \$41.26 as reported on the New York Stock Exchange as of that date).

As of September 24, 2014, there were approximately 138,365,916 shares of the registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for its 2014 annual meeting of stockholders (the 2014 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

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	1
<u>General</u>	1
<u>Seasonality</u>	2
<u>Competition</u>	2
<u>Raw Materials</u>	2
<u>Patents and Trademarks</u>	2
<u>Major Customers</u>	2
<u>Backlog</u>	2
<u>Research and Development</u>	2
<u>Environmental Matters</u>	3
<u>Employees</u>	3
<u>Geographic Areas</u>	3
<u>Item 1A.</u> <u>Risk Factors</u>	3
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	6
<u>Item 2.</u> <u>Properties</u>	6
<u>Item 3.</u> <u>Legal Proceedings</u>	7
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	7
<u>Executive Officers of the Registrant</u>	7
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
<u>Item 6.</u> <u>Selected Financial Data</u>	10
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Safe Harbor Statement under the Securities Reform Act of 1995</u>	26
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	27
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	58
<u>Item 9A.</u> <u>Controls and Procedures</u>	58
<u>Item 9B.</u> <u>Other Information</u>	59
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	59
<u>Item 11.</u> <u>Executive Compensation</u>	59
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	60
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	61
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	61
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits, Financial Statement Schedules</u>	61
<u>Signatures</u>	62
<u>Schedule II Valuation and Qualifying Accounts</u>	63
<u>Exhibit Index</u>	64

Table of Contents**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 core strengths are leading filtration technology, strong Customer relationships, and its global presence. 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 including hydraulics, fuel, and lube, 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 independent distributors, OEM dealer networks, 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 and gas filtration systems for applications including computer hard disk drives and semi-conductor manufacturing. The Industrial Products segment sells to various industrial dealers, distributors, OEMs of gas-fired turbines, and OEMs and end-users requiring filtration solutions and replacement filters.

The discussion below should be read in conjunction with the risk factors discussed in this report in Part I, Item 1A, Risk Factors.

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,		
	2014	2013	2012
Engine Products segment			
Off-Road Products	14%	15%	15%
On-Road Products	5%	5%	7%
Aftermarket Products*	41%	38%	37%
Aerospace and Defense Products	4%	4%	4%
*includes replacement part sales to the Company's OEM Customers			
Industrial Products segment			
Industrial Filtration Solutions Products	23%	22%	22%
Gas Turbine Products	6%	9%	7%
Special Applications Products	7%	7%	8%

Total net sales contributed by the principal classes of similar products and financial information about segment operations and geographic regions appear in Note K in the Notes to Consolidated Financial Statements on page 54.

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 also available in print, free of charge to any person who requests them in writing to the attention of Investor Relations, MS 102, Donaldson Company, Inc., 1400 West 94th Street, Minneapolis, Minnesota 55431. 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.

Table of Contents

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 typically characterized by more Customer plant closures.

Competition

Principal methods of competition in both the Engine and Industrial Products segments are technology and innovation, 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 within many of its product lines, specifically within 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 petroleum-based products. Purchased raw materials represent approximately 60 to 65 percent of the Company's cost of goods sold. Of that amount, steel, including fabricated parts, represents approximately 25 percent. Filter media represents approximately 15 to 20 percent and the remainder is primarily made up of petroleum-based products and other components. The Company typically has multiple sources of supply for the raw materials essential to its business, but does rely primarily on two media suppliers. The Company 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. The Company has not experienced significant supply problems in the purchase of its major raw materials.

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 2014, 2013, or 2012. There were no Customers that accounted for over 10 percent of gross accounts receivable in Fiscal 2014 or Fiscal 2013.

Backlog

At August 31, 2014, the backlog of orders expected to be delivered within 90 days was \$375.1 million. The 90-day backlog at August 31, 2013, was \$351.7 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 2014, the Company spent \$61.8 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 \$62.6 million and \$59.6 million in Fiscal 2013 and Fiscal 2012, respectively, on research and development activities. Substantially all commercial research and development is performed in-house.

Table of Contents

Environmental Matters

The Company does not anticipate any material effect on its capital expenditures, earnings, or competitive position during Fiscal 2015 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 12,500 persons in worldwide operations as of August 31, 2014.

Geographic Areas

Financial information about geographic areas appears in Note K of the Notes to Consolidated Financial Statements on page 54.

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, outline the risks and uncertainties that we believe are the most material to our business at this time. We want to further highlight the risks and uncertainties associated with: world economic factors and ongoing global 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, our international operations, highly competitive markets, governmental laws and regulations, including the impact of the various economic stimulus and financial reform measures, the implementation of our new information technology systems, information security and data breaches, potential global events resulting in market instability including financial bailouts and defaults of sovereign nations, military and terrorist activities, including political unrest in the Middle East and Ukraine, other political changes, health outbreaks, natural disasters, and other factors discussed below. We undertake 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 the Americas, 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, anti-corruption laws, 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 the Middle East, Ukraine, China, Thailand, and other emerging markets where we do business,

potential global health outbreaks, and

natural disasters.

Due to the international scope of our operations, we are subject to a complex system of import- and export-related laws and regulations. Any alleged or actual violations may subject us to government scrutiny, investigation, and civil and criminal penalties, and may limit our ability to import or export our products or to provide services outside the United States (U.S.). In addition, the U.S. Foreign Corrupt Practices Act and

Table of Contents

similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business, or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our reputation, business, and results of operations or financial condition.

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.

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

reduced demand for disk drive products by flash memory or a similar technology, which would reduce the use of disk drives and therefore reduce the need for our filtration solutions in disk drives

other breakthroughs in filtration technologies that could displace our products

Difficulties with our information technology systems and security could adversely affect our results.

We have many information technology systems that are important to the operation of our businesses, some of which are managed by third parties. These systems are used to process, transmit, and store electronic information, and to manage or support a variety of business processes and activities. We could encounter difficulties in developing new systems, maintaining and upgrading existing systems, and preventing information security breaches. There may be other challenges and risks as we continue to upgrade and standardize our multi-year implementation of a global enterprise resource planning system (Global ERP Project) on a worldwide basis. Such difficulties could lead to significant additional expenses and/or disruption in business operations that could adversely affect our results. Additionally, information technology security threats are increasing in frequency and sophistication. These threats pose a risk to the security of our systems and networks and the confidentiality, availability, and integrity of our data. Should such an attack succeed, it could lead to the compromising of confidential information, manipulation and destruction of data, defective products, production downtimes, and operations disruptions. The occurrence of any of these events could adversely affect our reputation, and could result in litigation, regulatory action, potential liability, and increased costs and operational consequences of implementing further data protection matters.

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

Changes in economic or industrial conditions could impact our results of operations or financial condition in any particular period as our business can be sensitive to varying conditions by region across the globe.

While sales to Caterpillar accounted for slightly less than 10 percent of our net sales in Fiscal 2014, 2013, and 2012, an adverse change in Caterpillar's financial performance or a material reduction in our sales to Caterpillar could negatively impact our operating results.

Table of Contents

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 us and their other suppliers. We may lose business or negatively impact our margins if we are unable to deliver the best value to our Customers.

Changes in our product mix impact 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. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

Unavailable or higher cost materials could impact our financial performance.

We obtain raw materials including steel, filter media, petroleum-based products, 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.

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 functional 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.

Costs associated with lawsuits or investigations may have an adverse effect on our results of operations.

We are subject to many 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. We are involved in various product liability, product warranty, intellectual property, environmental claims, and other legal proceedings that arise in and outside of the ordinary course of our business. It is not possible to predict the outcome of investigations and lawsuits, and we could incur judgments, fines, or penalties or enter into settlements of lawsuits and claims that could have an adverse effect on our business, results of operations, and financial condition in any particular period.

Additional tax expense or tax exposure could impact our financial performance.

We are subject to income taxes in various jurisdictions in which we operate. Our tax liabilities are dependent upon the location of earnings among these different jurisdictions. Our provision for income taxes and cash tax liability could be adversely affected by numerous factors, including income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws and regulations. We are also subject to the continuous examination of our income tax returns by tax authorities. The results of audits and examinations of previously filed tax returns and continuing

Table of Contents

assessments of our tax exposures may have an adverse effect on the Company's provision for income taxes and cash tax liability.

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

We are subject to many environmental and product laws and regulations in the jurisdiction 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.

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 Company's principal European administrative and engineering offices are located in Leuven, Belgium. The Company also has extensive operations in the Asia-Pacific and Latin America regions.

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
 Chesterfield, Missouri (E)*
 Chillicothe, Missouri (E)
 Philadelphia, Pennsylvania (I)
 Greeneville, Tennessee
 Baldwin, Wisconsin
 Stevens Point, Wisconsin
 Sao Paulo, Brazil (E)*
 Brockville, Canada (E)*
 Aguascalientes, Mexico
 Monterrey, Mexico (I)

Joint Venture Facilities

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

Distribution Centers

Wyong, Australia
 Brugge, Belgium
 Sao Paulo, Brazil*
 Rensselaer, Indiana
 Jakarta, Indonesia
 Aguascalientes, Mexico
 Johannesburg, South Africa
 Seoul, South Korea*

Europe / Middle East / Africa

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

Australia

Wyong, Australia

Asia

Wuxi, China
 New Delhi, India
 Gunma, Japan
 Rayong, Thailand (I)

Third-Party Logistics Providers

Santiago, Chile
 Wuxi, China
 Mumbai, India
 Chennai, India
 Plainfield, Indiana (I)
 Gunma, Japan
 Lima, Peru
 Singapore
 Greeneville, Tennessee (I)

Table of Contents

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.

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 operations 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 operations or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

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
Amy C. Becker	49	Vice President, General Counsel and Secretary	2014
Tod E. Carpenter	55	Chief Operating Officer	2008
William M. Cook	61	Chairman, President and Chief Executive Officer	1994
Sandra N. Joppa	49	Vice President, Human Resources	2006
Mary Lynne Perushek	56	Vice President and Chief Information Officer	2007
Thomas R. Scalf	48	Senior Vice President, Engine Products	2014
James F. Shaw	45	Vice President and Chief Financial Officer	2012
Wim Vermeersch	48	Vice President, Europe and Middle East	2012
Jay L. Ward	50	Senior Vice President, Industrial Products	2006
Eugene X. Wu	46	Vice President, Asia Pacific	2012

Ms. Becker joined the Company in 1998 as Senior Counsel and Assistant Corporate Secretary and was appointed to Vice President, General Counsel and Secretary in August 2014. Prior to joining the Company, Ms. Becker was an attorney for Dorsey and Whitney, LLP from 1991 to 1995 and was a Project Manager and Corporate Counsel for Harmon, Ltd. from 1995 to 1998.

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; Vice President, Global IFS from 2006 to 2008; Vice President, Europe and Middle East from 2008 to 2011; and Senior Vice President, Engine Products from 2011 to 2014. In April 2014, Mr. Carpenter was appointed Chief Operating Officer.

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.

Ms. Joppa was appointed Vice President, Human Resources 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.

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Table of Contents

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. Scalf joined the Company in 1989 and has held various positions, including Director of Global Operations from 2003 to 2006; General Manager of Exhaust & Emissions from 2006 to 2008; General Manager of Industrial Filtration Solutions from 2008 to 2012; and Vice President of Global Industrial Air Filtration from 2012 to 2014. Mr. Scalf was appointed Senior Vice President, Engine Products, in April 2014.

Mr. Shaw joined the Company in 2004 and has held various positions, including Director, Corporate Compliance/Internal Audit, and Corporate Controller and Principal Accounting Officer from 2004 to 2011. Mr. Shaw was appointed Vice President and Chief Financial Officer effective November 2011. Prior to joining Donaldson, Mr. Shaw held various positions at Deloitte & Touche, LLP and Arthur Andersen, LLP.

Mr. Vermeersch joined the Company in 1992 and has held various positions, including Director, Gas Turbine Systems, Asia Pacific from 2000 to 2005; Manager, Aftermarket and Service IFS, Belgium from 2005 to 2006; Manager, IFS, Belgium from 2006 to 2007; Director, Gas Turbine Systems, Europe, Middle East and North Africa, from 2007 to 2010; and Director, Engine, Europe, Middle East and North Africa from 2010 to 2011. Mr. Vermeersch was appointed Vice President, Europe and Middle East in January 2012.

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 and was appointed Senior Vice President, Industrial Products, in October 2011.

Mr. Wu was appointed Vice President, Asia Pacific in January 2012. Prior to that time, Mr. Wu was the Global Vice President and President of Asia Pacific at Greif, Inc., a global leader in industrial packaging products and services, from 2005 to 2010; and Chief Advisor to Chairman of the Board of Wanhua Industrial Group, a global chemical industry leader, from 2010 to 2011.

Table of Contents**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 2014 and 2013 appear in Note O of the Notes to Consolidated Financial Statements on page 58. The Company's dividend payout ratio target is approximately 30 percent to 40 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 24, 2014, there were 1,779 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 2014 and 2013 were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2014	\$34.60 - 41.31	\$38.98 - 43.74	\$38.66 - 43.39	\$38.77 - 43.00
Fiscal 2013	\$30.90 - 38.18	\$31.83 - 38.30	\$34.26 - 38.08	\$34.35 - 39.36

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, 2014.

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, 2014	756,257	\$ 41.35	756,257	10,544,144
June 1 - June 30, 2014	1,204,889	\$ 41.29	1,204,889	9,339,255
July 1 - July 31, 2014	801,028	\$ 40.86	795,545	8,543,710
Total	2,762,174	\$ 41.18	2,756,691	8,543,710

- (1) On September 27, 2013, the Company announced that the Board of Directors authorized the repurchase of up to 15.0 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 26, 2010. There were no repurchases of common stock made outside of the Company's current repurchase authorization during the quarter ended July 31, 2014. However, the Total Number of Shares Purchased column of the table above includes 5,483 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.

On January 27, 2012, the Company announced that its Board of Directors declared a two-for-one stock split effected in the form of a 100 percent stock dividend. The stock split was distributed March 23, 2012, to stockholders of record as of March 2, 2012. Earnings and dividends per share and weighted average shares outstanding are presented in this Form 10-K after the effect of the 100 percent stock dividend. The two-for-one stock split is reflected in the share amounts in all periods presented in the table above and elsewhere in this annual Form 10-K.

The table set forth in Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this report is also incorporated herein by reference.

Table of Contents

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,					
	2009	2010	2011	2012	2013	2014
Donaldson Company, Inc.	\$ 100.00	\$ 126.32	\$ 148.88	\$ 185.33	\$ 199.13	\$ 216.11
S&P 500	100.00	113.83	136.21	148.64	185.80	217.28
S&P Industrial Machinery	100.00	131.25	158.27	166.58	233.72	274.37

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, 2014 (in millions, except per share data):

	Year Ended July 31,				
	2014	2013	2012	2011	2010
Net sales	\$ 2,473.5	\$ 2,436.9	\$ 2,493.2	\$ 2,294.0	\$ 1,877.1
Net earnings	260.2	247.4	264.3	225.3	166.2
Basic earnings per share	1.79	1.67	1.76	1.46	1.07
Diluted earnings per share	1.76	1.64	1.73	1.43	1.05
Total assets	1,942.4	1,743.6	1,730.1	1,726.1	1,499.5
Long-term obligations	243.7	102.8	203.5	205.7	256.2
Cash dividends declared per share	0.610	0.450	0.335	0.280	0.240
Cash dividends paid per share	0.575	0.410	0.320	0.268	0.235

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**Results of Operations**

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.

Table of Contents**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 filtration systems, exhaust and emission systems, liquid filtration systems including hydraulics, fuel, and lube, and replacement filters. As a worldwide business, the Company's results of operations are affected by conditions in the global economic environment. Under most economic conditions, the Company's market diversification between its OEM and replacement parts Customers, its diesel engine and industrial end markets, and its global 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 sales in Fiscal 2014 of \$2,473.5 million, up 1.5 percent from \$2,436.9 million in the prior year. The Company's results were negatively impacted by foreign currency translation, which decreased sales by \$11.4 million. Excluding the current year impact of foreign currency translation, worldwide sales increased 2.0 percent.

The Company reported net earnings in Fiscal 2014 of \$260.2 million, an increase of 5.2 percent from \$247.4 million in the prior year. The Company's net earnings were negatively impacted by foreign currency translation, which decreased net earnings by \$1.0 million. Excluding the current year impact of foreign currency translation, net earnings increased 5.6 percent.

Although net sales and net earnings excluding foreign currency translation are not measures of financial performance under generally accepted accounting principles in the United States of America (U.S. GAAP), the Company believes they are useful in understanding its financial results and provide comparable measures for understanding the operating results of the Company between different fiscal periods. Following are reconciliations to the most comparable U.S. GAAP financial measures of these non-GAAP financial measures (in millions):

	Net Sales	Percent Change in Net Sales
Year ended July 31, 2012	\$ 2,493.2	NA
Net sales change, excluding foreign currency translation impact	(24.1)	(1.0)%
Foreign currency translation impact	(32.2)	(1.3)%
Year ended July 31, 2013		