

DONALDSON CO INC
Form DEF 14A
October 06, 2008
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Donaldson Company, Inc.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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DONALDSON COMPANY, INC.

1400 West 94th Street

Minneapolis, Minnesota 55431-2370

www.donaldson.com

NOTICE OF 2008 ANNUAL MEETING OF STOCKHOLDERS

TIME: 1:00 p.m. (local time) on Friday, November 21, 2008

PLACE: Donaldson Company, Inc. Corporate Offices, Campus West, 2001 West 94th Street, Minneapolis, Minnesota 55431.

ITEMS OF BUSINESS:

- (1) To elect three directors;
- (2) To ratify the appointment of PricewaterhouseCoopers LLP as Donaldson Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending July 31, 2009; and
- (3) To transact other business that properly comes before the meeting.

RECORD DATE: You may vote if you are a stockholder of record at the close of business on September 23, 2008.

PROXY VOTING: It is important that your shares be represented and voted at the Annual Meeting. Instructions on voting your shares are on the Notice of Internet Availability of Proxy Materials you received for the Annual Meeting. If you received paper copies of the proxy materials, instructions on the three different ways to vote your shares are found on the enclosed proxy card. You should vote by proxy even if you plan to attend the Annual Meeting. Your support is appreciated, and you are cordially invited to attend the Annual Meeting.

PLEASE PROMPTLY VOTE YOUR PROXY TO SAVE US THE EXPENSE OF ADDITIONAL SOLICITATION.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on November 21, 2008: Our 2008 Proxy Statement and our Fiscal 2008 Annual Report to Stockholders are available at www.proxyvote.com.

By Order of the Board of Directors

Norman C. Linnell
Secretary

Dated: October 7, 2008

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DONALDSON COMPANY, INC.

1400 West 94th Street

Minneapolis, Minnesota 55431

PROXY STATEMENT
Mailing Date: October 7, 2008

PROPOSALS YOU ARE ASKED TO VOTE ON

Item 1

Election of Directors

Three current directors, F. Guillaume Bastiaens, Janet M. Dolan, and Jeffrey Noddle, are recommended for election to the Board of Directors at the annual meeting. Information on the nominees is provided on page 7. Directors are elected for a three-year term so that approximately

one-third are elected at each annual meeting of stockholders.

The Board of Directors unanimously recommends a vote FOR the election of each director nominee.

Item 2

Ratification of the Appointment of Independent Registered Public Accounting Firm

The Audit Committee has selected PricewaterhouseCoopers LLP as Donaldson Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending July 31, 2009, and is requesting ratification by the stockholders.

The Board of Directors unanimously recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as Donaldson Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending July 31, 2009.

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QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: *Why did I receive access to this Proxy Statement?*

A: Because the Board of Directors of Donaldson is soliciting proxies for use at the annual meeting to be held on November 21, 2008 and you are a Donaldson stockholder as of the close of business on the record date of September 23, 2008. Only stockholders of record are entitled to vote at the annual meeting and the Board of Directors is soliciting your proxy to vote at the meeting. We had 76,917,375 shares of common stock outstanding as of close of business on the record date. Each share entitles its holder to one vote, and there is no cumulative voting.

This Proxy Statement summarizes the information you need to know to vote. We first mailed or otherwise made available the Proxy Statement and form of proxy to stockholders on or about October 7, 2008.

Q: *Why did I receive a notice in the mail regarding the internet availability of proxy materials instead of a full set of proxy materials?*

A: In accordance with rules adopted by the Securities and Exchange Commission (the "SEC"), we may now furnish proxy materials, including this Proxy Statement and our Fiscal 2008 Annual Report to Stockholders, to our stockholders by providing access to such documents on the internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice of Internet Availability of Proxy Materials, which was mailed to most of our stockholders, will instruct you as

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to how you may access and review all of the proxy materials on the internet. Such notice also instructs you as to how you may submit your proxy on the internet. By accessing and reviewing the proxy materials on the internet, you will save us the cost of printing and mailing these materials to you and reduce the impact of such printing and mailing on the environment. If you would like to receive a paper copy of our proxy materials, you should follow the instructions for requesting such materials provided in the Notice of Internet Availability of Proxy Materials.

Q: *What am I voting on and what does the Board recommend?*

- A:
1. The election of three directors; and
 2. The ratification of the appointment of our independent registered public accounting firm for the fiscal year ending July 31, 2009.

THE BOARD RECOMMENDS A VOTE FOR EACH OF THE DIRECTORS AND FOR THE RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Q: *How do I vote if I am a stockholder of record?*

A: If you are a stockholder of record you may vote using any ONE of the methods:

1. VOTE BY PHONE TOLL FREE 1-800-690-6903
2. VOTE BY INTERNET <http://www.proxyvote.com>
3. VOTE BY PROMPTLY COMPLETING, SIGNING AND MAILING YOUR PROXY CARD (if you received paper copies of the proxy materials)
4. VOTE BY CASTING YOUR VOTE IN PERSON AT THE MEETING

If you participate in the Donaldson Dividend Reinvestment Program open to all stockholders and administered by the transfer agent, your shares in that program have been added to your other holdings and are included in your proxy materials.

If you participate in the Donaldson Employee Stock Purchase Program administered by the transfer agent, your shares in that program have been added to your other holdings and are included in your proxy materials.

Q: *How do I vote if I hold stock through a Donaldson employee benefit plan?*

A: We have added the shares of common stock held by participants in Donaldson's employee benefit plans to the participants' other holdings shown on their proxy materials. Donaldson's employee benefit plans are the Employee Stock Ownership Plan, the PAYSOP, and the Donaldson Company, Inc. Retirement Savings Plan (the 401(k) Plan).

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If you hold stock through Donaldson's employee benefit plans, voting your proxy using one of methods 1-3 above also serves as confidential voting instructions to the plan trustee, Fidelity Management Trust Company (Fidelity). Fidelity will vote your employee benefit plan shares as directed by you provided that your proxy vote is **RECEIVED BY NOVEMBER 18, 2008**.

Fidelity also will vote the shares allocated to individual participant accounts for which it has not received instructions, as well as shares not so allocated, in the same proportion as the directed shares are voted.

Q How do I vote if my shares are held in a brokerage account in my broker's name (i.e., street name)?

If your shares are held in a brokerage account in your broker's name (street name), you should follow the voting directions provided by your broker or nominee. If you do so, your broker or nominee will vote your shares as you have directed.

Q What does it mean if I receive more than one Notice of Internet Availability of Proxy Materials or proxy card?

A: It means that you have multiple accounts with banks or stockbrokers or with the transfer agent.
PLEASE VOTE ALL OF YOUR SHARES.

Q What if I change my mind after I vote my shares?

A: You can revoke your proxy at any time before it is voted at the meeting by:

1. Sending written notice of revocation to the Company Secretary;
2. Submitting a properly signed proxy card with a later date;
3. Voting by telephone or internet at a time following your prior telephone or internet vote; or
4. Voting in person at the annual meeting.

Q How are the votes counted?

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A: For item (1), the election of directors, you may 1) vote for all of the nominees, 2) withhold your vote from all of the nominees or 3) withhold your vote from a specifically designated nominee. For item (2), the ratification of the appointment of our independent registered public accounting firm, you may vote (or abstain) by choosing For, Against or Abstain.

If you abstain from item (2), your shares will be counted as present at the meeting for the purposes of determining a quorum, and they will be treated as shares not voted on the specific proposal.

If you hold shares in street name and do not provide voting instructions to your broker, your broker will not vote your shares on any proposal where the broker does not have discretionary authority to vote. In such a situation, the shares will be considered present at the meeting for purposes of determining a quorum, but will not be considered to be represented at the meeting for purposes of calculating the vote with respect to the matter requiring discretionary authority. New York Stock Exchange (NYSE) Rules permit brokers discretionary authority to vote on items (1) and (2) if they do not receive instructions from the street name holder of the shares. As a result, if you do not vote your street name shares, your broker has authority to vote on your behalf.

We use an independent inspector of elections, Broadridge Investor Communication Solutions, Inc., which tabulates the votes received.

Q: *What if I do not specify how I want my shares voted?*

A: If you do not specify on your returned proxy card or through the telephone or internet prompts how you want to vote your shares, they will be voted FOR the election of all director nominees, and FOR the ratification of the appointment of the independent registered public accounting firm.

Q: *How many shares must be present to hold the meeting?*

A: A quorum must be present for the meeting to be valid. This means that at least a majority of the shares outstanding as of the record date must be present. We will count you as present if you:

1. Have properly voted your proxy by telephone, internet or mailing of the proxy card; or
2. Are present and vote in person at the meeting.

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Q: *How many votes are needed to approve each item?*

A: The Bylaws were amended to change the voting standard for the election of directors in uncontested director elections from a plurality to a majority voting standard. A nominee for director in an uncontested election will be elected to the Board if the votes cast FOR such

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nominee's election exceed fifty percent (50%) of the number of votes cast with respect to such nominee. Votes cast with respect to a nominee include votes to withhold authority and exclude abstentions with respect to such nominee. Directors will be elected by a plurality vote at a stockholder meeting if (i) the Secretary of the Company receives a notice that a stockholder has nominated a person for election to the Board in compliance with the advance notice requirements for stockholder nominees set forth in the Bylaws and (ii) such nomination has not been withdrawn by such stockholder prior to the tenth (10th) day preceding the date the Company first mails its notice of meeting for such meeting to the stockholders.

Ratification of the appointment of the independent registered public accounting firm requires the affirmative vote of a majority of shares entitled to vote and represented at the meeting in person or by proxy.

Q: *How will voting on any other business be conducted?*

A: We do not know of any business to be considered at the 2008 Annual Meeting of Stockholders other than the proposals described in this Proxy Statement. If any other business is properly presented at the annual meeting, your shares will be voted by the holders of the proxies in their discretion.

Q: *Who may attend the meeting?*

A: All Donaldson stockholders of record as of the close of business on September 23, 2008 may attend.

Q: *Where do I find the voting results of the meeting?*

A: We will publish the voting results in our Form 10-Q for the second quarter of Fiscal 2009 to be filed with the SEC.

Q: *How do I submit a stockholder proposal?*

A: If you wish to include a proposal in the Company's Proxy Statement for its 2009 Annual Meeting of Stockholders, you must submit the proposal in writing so that it is received no later than June 9, 2009. Please send your proposal to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299.

Under our Bylaws, if you wish to nominate a director or bring other business before the stockholders at our 2009 annual meeting without having your proposal included in our Proxy Statement:

» You must notify the Company Secretary of Donaldson Company, Inc. in writing between July 24, 2009 and August 23, 2009.

» Your notice must contain the specific information required in our Bylaws. If you would like a copy of our Bylaws, we will send you one without charge. Please write to the Company Secretary at the address shown above.

Q: *Who pays for the cost of proxy preparation and solicitation?*

A: Donaldson pays for the cost of proxy preparation and solicitation, including the reasonable charges and expenses of brokerage firms, banks or other nominees for forwarding proxy materials to street name holders. We are soliciting proxies primarily by mail, email and the internet. In addition, our directors, officers and regular employees may solicit proxies by email, telephone, facsimile or personally. These

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individuals will receive no additional compensation for their services other than their regular salaries.

SECURITY OWNERSHIP

Set forth below is information regarding persons known by the Company to own beneficially more than 5% of the outstanding Common Stock of the Company based on the number of shares of Common Stock outstanding on September 23, 2008:

Name and Address of Beneficial Owner⁽¹⁾	Amount and Nature of Beneficial Ownership	Percent of Class
Columbia Wanger Asset Management, L.P. 227 West Monroe Street Suite 3000 Chicago, IL 60606	5,547,600 ⁽²⁾	7.2

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- (1) Fidelity Management Trust Company, as the trustee of the Company's Retirement Savings Plan - 401(k) Profit Sharing and ESOP/PAYSOP Plan, held 6,052,385 shares, or 7.9%, of the Company's common stock as of September 23, 2008. Fidelity disclaims beneficial ownership of the shares claiming that it holds the shares solely for the benefit of the employee participants, and that it does not have the power to vote or dispose of those shares except as directed by the employee participants. Fidelity's business address is 82 Devonshire Street, Boston, MA, 02109.
- (2) Based on information provided in a Schedule 13G filed with the SEC on January 24, 2008, Columbia Wanger Asset Management, L.P., an investment advisor, reported that it has sole power to dispose of or direct the disposition of 5,547,600 shares, sole power to vote or direct the vote of 5,177,600 shares and shared power to vote or direct the vote of 370,000 shares.

The following table shows information regarding the beneficial ownership of the Company's common stock and information concerning deferred restricted stock units, deferred share units under stock option exercises and phantom stock units beneficially owned, as of September 23, 2008, by each director, each of the Named Executive Officers (as identified on page 29) and all executive officers and directors of the Company as a group. The shares listed in the table as beneficially owned include (i) shares over which a person has sole or shared voting power, or sole or shared power to invest or dispose of the shares, whether or not a person has any economic interest in the shares; (ii) deferred stock units that have vested and been deferred, as to which the beneficial owner has no voting or investment power; and (iii) shares subject to options exercisable within 60 days of September 23, 2008. Except as otherwise indicated, the named beneficial owner has sole voting and investment power with respect to the shares held by such beneficial owner, and the shares are not subject to any pledge.

Name of Beneficial Owner	Total Amount and Nature of Beneficial Ownership of Common Shares	Percent of Common Shares	Deferred Stock Units Included in Total Amount	Exercisable Options Included in Total Column
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	(1)	(2)	(3)	(4)	(5)	Column (3)	
William M. Cook	971,071				1.3	242,385	521,030
Thomas R. VerHage	115,799				*	28,552	60,500
Lowell F. Schwab	423,950				*	44,683	205,059
Charles J. McMurray	147,743				*	12,734	82,000
Sandra N. Joppa	43,847				*	15,634	20,500
Jack W. Eugster	102,773				*		50,678
Janet M. Dolan	107,789				*		64,800
F. Guillaume Bastiaens	96,336				*		72,000
John F. Grundhofer	85,979				*		36,000
Jeffrey Noddle	75,511				*		57,600
Paul D. Miller	58,679				*		48,692
John P. Wiehoff	45,058				*		36,000
Michael J. Hoffman	26,619				*		21,600
Willard D. Oberton	16,642				*		14,400
Directors and Executive Officers as a Group	2,777,830				3.6	356,439	1,580,214

*Less than 1%

(1) Includes all beneficially owned shares, including restricted shares, shares for non-employee directors held in trust, shares underlying the units listed under the Deferred Stock Units column and the shares underlying options exercisable within 60 days, as listed under the Exercisable Options column.

(2) Includes the following shares held in the Employee Stock Ownership and Retirement Savings Plan trust: Cook, 44,155 shares; VerHage, 13 shares; Schwab, 21,856 shares; McMurray, 21,330 shares; Joppa, 1,400 shares; all directors and officers as a group, 138,173 shares. Voting of shares held in the Employee Stock Ownership and Retirement Savings Plan trust is passed through to the participants. Also

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includes the following shares held in the Deferred Compensation and 401(k) Excess Plan trust: Cook, 11,724 shares; VerHage, 74 shares; Schwab, 6,535 shares; McMurray, 1,418 shares; Joppa, 293 shares; all directors and officers as a group, 23,426 shares. Voting of shares held in the Deferred Compensation and 401(k) Excess Plan trust is passed through to the participants.

(3) Deferred stock units that have vested and been deferred are included in the beneficial ownership totals and in the percent of ownership (columns 1 and 2), however, the beneficial owner has no voting or investment power. The Deferred Stock Units column includes phantom stock units allocated to employees earning in excess of the limits established by the Internal Revenue Code for the qualified Employee Stock Ownership Plan that distributed shares in trust for employees during the period from 1987 to 1996. ESOP phantom stock units are held by the Named Executive Officers in the following amounts: Cook, 5,404 units; VerHage, 0 units; Schwab, 6,497 units; McMurray, 0 units; Joppa, 0 units; all directors and officers as a group, 12,730 units.

The Deferred Stock Units column also includes deferred restricted stock units under the Deferred Compensation and 401(k) Excess Plan. Deferred restricted stock units are held by the Named Executive Officers in the following amounts: Cook, 25,441 units; VerHage, 0 units; Schwab, 0 units; McMurray, 0 units; Joppa, 0 units; all directors and officers as a group, 25,441 units.

The Deferred Stock Units column also includes deferred stock units under the Deferred Compensation and 401(k) Excess Plan for exercises of stock options where the executive has previously elected to defer the receipt of the underlying shares. Deferred stock option gain units are held by the Named Executive Officers in the following amounts: Cook, 126,817 units; VerHage, 0 units; Schwab, 12,543 units; McMurray, 0 units; Joppa, 0 units; all directors and officers as a group, 139,360 units.

The Deferred Stock Units column also includes deferred stock units under the Deferred Compensation and 401(k) Excess Plan for deferral of shares awarded under the long term compensation plan under the 1991 Master Stock Compensation Plan and the 2001 Master Stock Incentive Plan, where the executive has previously elected to defer the receipt of the underlying shares. Deferred stock units are held by the Named Executive Officers in the following amounts: Cook, 84,724 units; VerHage, 28,552 units; Schwab, 25,642 units; McMurray, 12,734 units; Joppa, 15,634 units; and all directors and officers as a group, 178,908 units.

- (4) Includes the following shares held in the non-employee director's deferred stock account trust: Eugster, 25,819 shares; Dolan, 22,931 shares; Bastiaens, 7,026 shares; Grundhofer, 21,369 shares; Noddle, 16,481 shares; Miller, 9,587 shares; Wiehoff, 8,858 shares; Hoffman, 5,019 shares; Oberton, 1,242 shares; all directors and officers as a group, 118,332 shares. Voting of shares held in the deferred stock account trust is passed through to the participants.
- (5) Includes 26,770 shares held in a trust of which Mr. Grundhofer is a trustee and has shared voting and investment power.

ITEM 1: ELECTION OF DIRECTORS

The Bylaws of the Company provide that the Board of Directors shall consist of not less than three nor more than fifteen directors and that the number of directors may be fixed from time to time by the affirmative vote of a majority of the directors. The Board of Directors has fixed the number of directors constituting the entire Board at ten. Vacancies and newly created directorships resulting from an increase in the number of directors may be filled by a majority of the directors then in office and the directors so chosen will hold office until the next election of the class for which such directors shall have been chosen and until their successors are elected and qualified. Directors are elected for a term of three years with positions staggered so that approximately one-third of the directors are elected at each annual meeting of the stockholders. The terms of Mr. Bastiaens, Ms. Dolan, and Mr. Noddle expire at the annual meeting.

The Board of Directors has no reason to believe that any nominees will be unavailable or unable to serve, but in the event any nominee is not a candidate at the meeting, the persons named in the proxy intend to vote in favor of the remaining nominees and such other person, if any, as they may determine.

The Board of Directors recommends that stockholders vote **FOR** the election of each director nominee.

The table on the following page sets forth additional information with respect to each nominee for election as a director and each other person whose term of office as a director will continue after the meeting.

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<u>Name</u> Terms Expiring in 2008:	Principal Occupation and Business Experience
F. Guillaume Bastiaens Age 65 Director since 1995	Retired Vice Chairman (1998-2008) of Cargill, Inc., a provider of food, agricultural and risk management products and services. Also a director of The Mosaic Company.
Janet M. Dolan Age 58 Director since 1996	President of Act III Enterprises, a consulting services company, since 2005. Retired Chief Executive Officer (1999-2005) and President (1998-2005) of Tennant Company, a manufacturer of indoor and outdoor cleaning solutions and specialty coatings. Also, a director of The Travelers Companies, Inc.
Jeffrey Noddle Age 62 Director since 2000	Chairman and Chief Executive Officer (2002) of SUPERVALU INC., a food retailer and provider of distribution and logistics support services. Previously, President (2001-2005). Also a director of Ameriprise Financial, Inc.
<u>Name</u> Terms Expiring in 2009:	Principal Occupation and Business Experience
Jack W. Eugster Age 62 Director since 1993	Retired Non-Executive Chairman (2001-2005) of Shopko Stores, Inc., a retail products company. Retired Chairman, Chief Executive Officer and President (1986-2001) of Musicland Stores Corporation, a retail consumer products company. Also a director of Graco, Inc. and Black Hills Corporation.
John F. Grundhofer Age 69 Director since 1997	Retired Chairman (1990-1997 and 1999-2002), Chief Executive Officer (1990-2001) and President (1990-1999 and 2000-2001) of U.S. Bancorp, a financial services provider. Also a director of Securian Financial Group, Inc., BJ's Restaurants, Inc., and Capmark Financial Group, Inc.
Admiral Paul David Miller Age 66 Director since 2001	Retired Chairman of ATK (Alliant Techsystems Inc.), an aerospace and defense company. Previously, Chairman (1999-2005) and Chief Executive Officer (1999-2003) and President of ATK (2000-2001). Prior to his retirement from the U.S. Navy following a 30-year career, Admiral Miller served as Commander-in-Chief, U.S. Atlantic Command and NATO Supreme Allied Commander-Atlantic. Also a director of Teledyne Technologies, Incorporated.
<u>Name</u> Terms Expiring in 2010:	Principal Occupation and Business Experience
William M. Cook Age 55 Director since 2004	Chairman (2005), Chief Executive Officer and President of the Company since August 2004. Previously, Senior Vice President and Chief Financial Officer (2001-2004); Senior Vice President, International; and Senior Vice President, Commercial and Industrial (1996-2000).
Michael J. Hoffman Age 53 Director since 2005	Chairman (2006), Chief Executive Officer (2005) and President (2004) of The Toro Company, a provider of outdoor maintenance and beautification products. Previously, Group Vice President (2001-2004); Vice President and General Manager (2000-2001).
Willard D. Oberton Age 50 Director since 2007	Chief Executive Officer (2002) and President (2001) of Fastenal Company, an industrial and construction supplies company. Previously, Chief Operating Officer (1997-2002) and Executive Vice President (2000-2001).
John P. Wiehoff Age 47 Director since 2003	Chairman (2007), Chief Executive Officer (2002) and President (1999) of C.H. Robinson Worldwide, Inc., a transportation, logistics and sourcing company. Also a director of Polaris Industries, Inc.

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CORPORATE GOVERNANCE

Board Oversight and Director Independence

Donaldson's Board believes that a primary responsibility of the Board of Directors is to provide effective governance over Donaldson's business. The Board selects the Chairman of the Board and the Chief Executive Officer and monitors the performance of senior management to whom it has delegated the conduct of the business. The Board has adopted a set of Corporate Governance Guidelines to assist in its governance, and the complete text of Donaldson's Corporate Governance Guidelines is available on the Investor Relations page of our website at www.donaldson.com under Corporate Governance.

Our Corporate Governance Guidelines provide that a significant majority of our directors will be non-employee directors who meet the independence requirements of the NYSE. The listing standards of the NYSE require that a majority of our directors be independent, and that our Corporate Governance, Audit and Human Resources Committees be comprised entirely of independent directors.

The Board has established the following independence standards consistent with the current listing standards of the NYSE for determining independence:

A director will not be considered independent if, within the preceding three years:

- o The director was an employee of Donaldson, or an immediate family member of the director was an executive officer of Donaldson;
- o The director or an immediate family member of the director has received during any 12-month period more than \$120,000 in direct compensation from us (other than director and committee fees and pension or other forms of deferred compensation for prior service to us);
- o An executive officer of Donaldson was on the compensation committee of a company which, at the same time, employed the director or an immediate family member of the director as an executive officer;
- o The director was an executive officer or employee of, or an immediate family member of the director was an executive officer of, another company that does business with us and the annual revenue derived from that business by either company exceeds the greater of (i) \$1,000,000 or (ii) 2% of the annual gross revenues of such company; or
- o The director or an immediate family member of the director has been affiliated with or employed in a professional capacity by our independent registered public accounting firm.

The Board has reviewed the transactions between each of our non-employee directors and the Company, including those companies where directors serve as an officer. Each of those transactions was significantly below the thresholds and all were in the ordinary course of business. Based on this review, the Board has determined that every director, with the exception of Mr. Cook who is an employee director, (i) has no material relationship with Donaldson, (ii) satisfies all of the SEC and NYSE independence standards and our Board-approved independence standards and (iii) is independent. The Board also has determined that every member of its Corporate Governance, Audit and Human Resources Committees is an independent director. In making the independence determinations, the Board reviewed all of the directors' relationships with the Company based primarily on a review of the responses of the directors to questions regarding employment, business, familial, compensation and other relationships with the Company and its management.

Policy and Procedures Regarding Transactions with Related Persons

Our Board of Directors, upon the recommendation of the Corporate Governance Committee, has adopted a written Related Person Transaction Policy. This policy delegates to our Audit Committee responsibility for reviewing, approving or ratifying transactions with certain related persons that are required to be disclosed under the rules of the SEC. Under the policy, a related person includes any of the directors or executive officers of the Company, certain stockholders and members of their immediate family.

Our Related Person Transaction Policy applies to transactions that involve a related person where we are a participant and the related person has a material direct or indirect interest. Certain types of transactions have been evaluated and preapproved by the Board under the policy:

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Any transaction in the ordinary course of business in which the aggregate amount involved will not exceed \$120,000;

Any transaction where the related person's interest arises solely from being a stockholder and all stockholders receive the same benefit on a pro rata basis;

Any transaction with another company at which a related person's only relationship is as an employee, director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of (i) \$500,000 or (ii) 1% of that company's or Donaldson's total annual revenues.

Meetings and Committees of the Board of Directors

There were six meetings of the Board of Directors in Fiscal 2008. Each director attended at least 75% of the aggregate of all meetings of the Board and its committees on which she or he served during the year, with the exception of John Grundhofer who attended 73% of such meetings. It also is our policy that directors are expected to attend our annual stockholder meetings. Last year, 9 out of 10 individuals then serving as directors attended the annual meeting of stockholders.

The Board of Directors has three committees:

Audit Committee

Human Resources Committee

Corporate Governance Committee

Each of the Board committees has a written charter, approved by the Board, establishing the authority and responsibilities of the committee. Each committee's charter is posted on the Investor Relations page of our website at www.donaldson.com under the Corporate Governance caption and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631. The following tables provide a summary of each committee's key areas of oversight, the number of meetings of each committee during the last fiscal year and the names of the directors currently serving on each committee.

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Audit Committee

Responsibilities

Appoints and replaces the independent registered public accounting firm, and oversees the work of the independent auditor.

Pre-approves all auditing services and permitted non-audit services to be performed by the independent auditor, including related fees.

Reviews with management and the independent auditor our annual audited financial statements and recommends to the Board whether the audited financial statements should be included in Donaldson's Annual Report on Form 10-K.

Reviews with management and the independent auditor our quarterly financial statements and the associated earnings news releases.

Reviews with management and the independent auditor significant reporting issues and judgments relating to the preparation of our financial statements, including internal controls.

Reviews with the independent auditor our critical accounting policies and practices and major issues regarding accounting principles.

Number of Meetings in Fiscal 2008: 8

Directors who serve on the committee:

Jack W. Eugster, Chair

Janet M. Dolan

Michael J. Hoffman

Paul David Miller

Jeffrey Noddle

John P. Wichoff

Reviews the Company's policies with respect to risk assessment and risk management.

Reviews the appointment, performance and replacement of the senior internal audit executive and reviews the CEO and CFO's certification of internal controls and disclosure controls.

Reviews Donaldson's compliance programs and procedures for the receipt, retention and handling of complaints regarding accounting, internal controls and auditing matters.

Human Resources Committee

Responsibilities

Reviews and approves the CEO's compensation, leads an annual evaluation of the CEO's performance and determines the CEO's compensation based on this evaluation.

Reviews and approves executive compensation plans and all equity-based plans.

Reviews and approves incentive compensation goals and performance measurements applicable to our executive officers.

Reviews and recommends the Compensation Discussion and Analysis be included in the Company's Proxy Statement and Form 10-K.

Number of Meetings in Fiscal 2008: 3

Directors who serve on the committee:

Jeffrey Noddle, Chair
F. Guillaume Bastiaens

Jack W. Eugster
John F. Grundhofer

Willard D. Oberton
John P. Wiehoff

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Corporate Governance Committee

Responsibilities

Reviews and establishes the process for the selection of director candidates and director qualification standards.

Reviews and establishes the process for the consideration of director candidates recommended by stockholders and recommends candidates for election to the Board.

Reviews and recommends the size and composition of the Board.

Reviews and recommends the size, composition and responsibilities of all Board committees.

Reviews and recommends policies and procedures to enhance the effectiveness of the Board, including those in the Corporate Governance Guidelines.

Oversees the annual Board's self-evaluation process.

Reviews and recommends to the Board the compensation paid to the independent, non-employee directors.

Number of Meetings in Fiscal 2008: 2

Directors who serve on the committee:

John F. Grundhofer, Chair
F. Guillaume Bastiaens

Janet M. Dolan
Michael J. Hoffman
Paul David Miller
Willard D. Oberton

Corporate Governance Guidelines

Our Board has adopted a set of Corporate Governance Guidelines to assist it in carrying out its oversight responsibilities. These guidelines address a broad range of topics, including director qualifications, director nomination processes, term limits, Board and committee structure and process, Board evaluations, director education, CEO evaluation, management succession planning and conflicts of interest. The complete text of the guidelines is available on the Investor Relations page of our website at www.donaldson.com under the Corporate Governance caption and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631.

Code of Business Conduct and Ethics

All of our directors and employees, including our chief executive officer, chief financial officer, chief accounting officer and other senior executives, are required to comply with our code of business conduct and ethics to help ensure that our business is conducted in accordance with the highest standards of legal and ethical behavior. Employees are required to bring any violations and suspected violations of the code to Donaldson's attention through management, Donaldson's Compliance Committee or Donaldson's legal counsel, or by using our confidential compliance helpline. Our toll-free U.S. compliance helpline number is 888-366-6031. Information on accessing the helpline from our international locations is available at www.donaldson.com.

The full text of our code of business conduct and ethics is posted on the Investor Relations page of our website at www.donaldson.com under Corporate Governance and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631.

Board Composition and Qualifications

Our Corporate Governance Committee oversees the process for identifying and evaluating candidates for the Board of Directors. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the stockholders. General and specific guidelines for director selection and qualification standards are detailed in the Corporate Governance Guidelines. The Corporate Governance Committee will consider nominations from stockholders under these standards if the nominations are timely received as described in this proxy statement.

Director Selection Process

The Bylaws of the Company provide that the Board of Directors shall consist of not less than three nor more than fifteen directors and that the number of directors may be fixed from time to time by the affirming vote of a majority of the directors. The Board of Directors has fixed the number of directors constituting the

entire Board at ten. Vacancies and newly created directorships resulting from an increase in the number of directors may be filled by a majority of the directors then in office and the directors so chosen will hold office until the next election of the class for which such directors shall have been chosen and until their successors are elected and qualified. Directors are elected for a term of three years with positions staggered so that approximately one-third of the directors are elected at each annual meeting of the stockholders. Based on advice from the Corporate Governance Committee, each year the Board will recommend a slate of directors to be presented for election at the annual meeting of stockholders.

The Corporate Governance Committee will consider candidates submitted by members of the Board, executives and our stockholders, and the Committee will review such candidates in accordance with our Bylaws, Corporate Governance Guidelines and applicable legal and regulatory requirements. The Corporate Governance Committee's process includes the consideration of the qualities listed in the Corporate Governance Guidelines, including that Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the stockholders. The Corporate Governance Committee reviews and discusses director candidates on a regular basis at its Committee meetings. In recommending candidates for nomination by the Board as a Director of Donaldson, the Corporate Governance Committee will consider appropriate criteria including current or recent experience as a Chairman of the Board, Chief Executive Officer or other senior executive officer; business expertise and diversity; and general criteria such as independence, ethical standards, a proven record of accomplishment, and the ability to provide valuable perspectives and meaningful oversight. Candidates recommended by stockholders are evaluated in accordance with the same criteria and using the same procedures as candidates submitted by Board members or the Chief Executive Officer.

Our Bylaws provide that if a stockholder proposes to nominate a candidate at the annual meeting of stockholders, the stockholder must give written notice of the nomination to our Corporate Secretary in compliance with the applicable deadline for submitting stockholder proposals for the applicable annual meeting. The stockholder must attend the meeting in person or by proxy. The stockholder's notice must set forth as to each nominee all information relating to the person whom the stockholder proposes to nominate that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected). No stockholders submitted director nominations in connection with this year's meeting.

Independent Director Executive Sessions and Evaluations

The Chair of our Corporate Governance Committee, John F. Grundhofer, currently is designated to preside over all meetings or executive sessions of the independent directors. Our independent directors meet in executive session without management present at each Board meeting. Likewise, all Board committees regularly meet in executive session without management. The Board and each Committee conducted an evaluation of its performance in Fiscal 2008.

Communications with Directors

The Donaldson Company Compliance Helpline is in place for our employees and others to direct their concerns to the Audit Committee, including on a confidential and anonymous basis, regarding accounting, internal accounting controls and auditing matters.

In addition, we have adopted procedures for our stockholders, employees and other interested parties to communicate with the independent members of the Board of Directors. You should communicate by writing to the Chair of the Audit Committee, the Chair of the Corporate Governance Committee or the independent directors as a group in the care of the office of the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299.

Written communications about accounting, internal accounting controls and auditing matters should be addressed to the Chair of the Audit Committee. Please indicate if you would like your communication to be kept confidential from management. The procedures for communication with the Board of Directors also are posted on the Investor Relations page of our website at www.donaldson.com under Corporate Governance.

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Audit Committee Expertise; Complaint-Handling Procedures

In addition to meeting the independence requirements of the NYSE and the SEC, all members of the Audit Committee have been determined by the Board to meet the financial literacy requirements of the NYSE's listing standards. The Board also has designated John P. Wiehoff as the audit committee financial expert as defined by SEC regulations.

In accordance with federal law, the Audit Committee has adopted procedures governing the receipt, retention and handling of complaints regarding accounting and auditing matters. These procedures include a means for employees to submit concerns on a confidential and anonymous basis, through Donaldson's compliance helpline.

DIRECTOR COMPENSATION

Annual compensation for our non-employee directors is designed to attract and retain highly qualified non-employee directors and to provide equity-based compensation in order to tie director compensation to our stockholders' interests. Directors are subject to a stock ownership requirement to own shares equal to five times their annual retainer within five years of their election as a director. Non-employee director compensation is comprised of annual retainers, meeting fees and an annual stock option grant.

Our Corporate Governance Committee assists the Board of Directors in providing oversight on director compensation. The Committee oversees, reviews, and reports to the Board on director compensation. The Corporate Governance Committee annually reviews competitive market data for non-employee director compensation and makes recommendations to the Board of Directors for its approval. The Committee is assisted in performing its duties by our Human Resources Department, and when needed, outside executive compensation consultants. The Committee engaged Towers Perrin to conduct a review of the director compensation program during Fiscal 2008. The information was presented to the Committee along with information based on an internal review of our director compensation by the Human Resource Department.

In its review, Towers Perrin provided information regarding market practices and trends and analyzed competitive market data from a selected peer group of companies. This peer group was consistent with the peer group Towers Perrin used for the executive compensation review (see the Compensation Process section of the Compensation Discussion and Analysis for additional details). Overall, Towers Perrin's review showed that our director compensation program is aligned with market trends and that director pay was directionally aligned with our size in relation to the peer group. Cash compensation is approximately at the median of the peer group and equity compensation is approximately at the 75th percentile of the peer group.

Annual Retainer

Non-employee directors receive an annual retainer of \$38,000. Thirty percent of the annual retainer is automatically deferred into a deferred stock account. The number of shares of stock deferred is equal to the amount of the retainer deferred divided by the stock price on the date of the

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retainer payment, which is January 1st. The remainder of the retainer is paid in cash unless the director elects, prior to the year the retainer is paid, to defer all or a portion of the remaining retainer into the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors.

The Chairs of the board committees receive an annual retainer as follows:

\$10,000 for the Audit Committee Chair

\$8,500 for the Human Resources Committee Chair

\$7,500 for the Corporate Governance Committee Chair

These retainers are also paid in cash unless the director elects to defer all or a portion of the retainer into the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors.

Meeting Fees

Non-employee directors receive \$2,500 for each Board meeting attended. Members of the board committees receive the following meeting fees for each committee meeting:

\$1,500 for Audit Committee meetings

\$1,000 for Human Resources Committee meetings

\$1,000 for Corporate Governance Committee meetings

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Non-employee directors can elect to receive the fees in cash, deferred cash or deferred stock. For those electing to receive deferred stock for their meeting fees, shares are deferred into the deferred stock account effective December 31st and June 30th of each year. The number of shares of stock deferred is equal to the amount of the meeting fees divided by the stock price on the effective date or on the previous business day if the effective date falls on a holiday or weekend.

Stock Options

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The Company's Non-Qualified Stock Option Program for Non-Employee Directors provides an annual grant of a non-qualified stock option of 7,200 shares of Common Stock to each non-employee director who is a member of the Board on the first business day following January 1 of each year. The annual grant date in Fiscal 2008 was January 2, 2008. The grant price is the closing stock price on the date of grant. The options are fully vested at the date of grant and have a ten year term. The option awards granted from 1998 through 2004 include a reload option that has the same features as the reload options granted to executive officers. The reload grant features are described in the Compensation and Discussion Analysis section under the Stock Option description.

Deferred Compensation

The Company sponsors the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors, a non-qualified deferred compensation plan. The Plan permits the directors to elect to receive their annual retainers and meeting fees in one or more of the following methods:

In cash on a current basis;

In cash on a deferred basis (deferred cash account); or

In Company stock on a deferred basis (deferred stock account).

Annual retainers are paid on January 1st. As predetermined by the Board, the number of shares deferred into the deferred stock account for the annual retainers is equal to the amount of the retainer deferred divided by the closing stock price on previous business day.

Meeting fees are paid on December 31st and June 30th. As determined by the Board, the number of shares of stock deferred into the deferred stock account for meeting fees is equal to the amount of the meeting fees elected to be deferred divided by the closing stock price on December 31st and June 30th or the previous business day if it falls on a holiday or weekend.

Any amount deferred into a deferred cash account will be credited with interest at a rate equal to the ten-year treasury bills rate plus two percent.

The amounts deferred into a deferred stock account will be credited with any quarterly dividends paid on the Company's Common Stock. The Company contributes shares in an amount equal to the deferred stock accounts to a trust and a director is entitled to direct the trustee to vote all shares allocated to the director's account. The Common Stock will be distributed to each director following retirement pursuant to the director's deferral payment election. The trust assets remain subject to the claims of the Company's creditors, and become irrevocable in the event of a Change in Control as defined under the 1991 Master Stock Compensation Plan and the 2001 Master Stock Incentive Plan.

The Fiscal 2008 compensation for our non-employee directors is shown in the following table.

Table of Contents**DIRECTOR COMPENSATION TABLE**

Name	Fees Earned or			Non-qualified Deferred		Total
	Paid in Cash ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards ⁽³⁾	Compensation Earnings ⁽⁵⁾	All Other Compensation ⁽⁶⁾	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
F. Guillaume Bastiaens	45,600	11,399	101,130		3,742	161,871
Janet M. Dolan	32,017	36,982	101,130		2,040	172,169
Jack W. Eugster	12,000	66,475	121,897	(4) 916	5,397	206,685
John F. Grundhofer		59,464	101,130		773	161,367
Michael J. Hoffman		66,956	101,130			168,086
Paul David Miller	29,000	37,994	101,130			168,124
Jeffrey Noddle		73,568	101,130			174,698
Willard D. Oberton	27,500	27,528	101,130			156,158
John P. Wiehoff		67,993	101,130			169,123

(1) The column shows the portion of the 70% of the annual retainer, the additional retainer for chairs of a Board committee, and the meeting fees that each director has elected to receive cash. Each director had the option to elect to receive these amounts in cash, deferred cash, or a deferred stock award. The amount in this column for Mr. Eugster was deferred into a deferred cash account.

(2) This column represents the compensation costs for financial reporting purposes under SFAS 123(R) as well as the grant date fair value of deferred stock awards granted to non-employee directors during the fiscal year under the Company's 2001 Master Stock Incentive Plan. This column includes the 30% of the annual retainer that is payable in a deferred stock award. It also includes all or a portion of the additional 70% of the annual retainer, chair retainers and meeting fees which the directors elected to receive in a deferred stock award.

The Fiscal 2008 deferred stock awards for meeting fees were made effective December 31, 2007 and June 30, 2008, the dates previously established by the Board of Directors. The valuation for those awards was the closing market price of the stock on those dates. The Fiscal 2008 deferred stock award for the annual retainers was made effective January 1, 2008, the date previously established by the Board of Directors. The valuation for that award was the closing market price of the stock on the previous business day, December 31, 2007.

The following directors elected to receive part or all of their remaining fees in deferred stock awards: Dolan, Eugster, Grundhofer, Hoffman, Miller, Noddle, Oberton and Wiehoff.

The following directors held deferred stock awards that are vested and will be paid out at the deferral election date made by the director as of July 31, 2008:

Bastiaens	7,008 units
Dolan	22,871 units
Eugster	25,752 units
Grundhofer	21,313 units
Hoffman	5,006 units
Miller	9,562 units
Noddle	16,438 units
Oberton	1,239 units
Wiehoff	8,835 units

- (3) This column represents the compensation costs for financial reporting purposes under SFAS 123(R) as well as the grant date fair value of stock option awards granted to non-employee directors during the fiscal year under the Company's 2001 Master Stock Incentive Plan. This represents the SFAS 123(R) Fair Market Value of these awards which were determined using the Black-Scholes option pricing model as detailed in Footnote H to the Consolidated Financial Statements in our Annual Report on Form 10-K for Fiscal 2008. The Fiscal 2008 stock option awards for our non-employee directors were made on January 2, 2008, the grant date previously established by the Board of Directors. The grant price for those options was the closing market price of the stock on that date.

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The following directors held stock options that are fully vested as of July 31, 2008: