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PALL CORP  
Form 10-K  
September 29, 2011

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, 2011  
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 001- 04311

PALL CORPORATION

(Exact name of registrant as specified in its charter)

New York	11-1541330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 Harbor Park Drive, Port Washington, NY	11050
(Address of principal executive offices)	(Zip Code)

(516) 484-5400  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	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 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 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on January 31, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was \$6,416,334,433.

On September 22, 2011, there were 115,029,938 outstanding shares of the registrant's common stock, \$.10 par value.

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's proxy statement for the 2011 annual meeting of shareholders, scheduled to be held on December 14, 2011 (hereinafter referred to as the "Proxy Statement"), are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS.

GENERAL:

Pall Corporation, a New York corporation incorporated in July 1946, and its subsidiaries (the “Company”) is a leading supplier of filtration, separation and purification technologies, principally made by the Company using its engineering capability and fluid management expertise, proprietary filter media, and other fluid clarification and separations equipment for the removal of solid, liquid and gaseous contaminants from a wide variety of liquids and gases.

The Company serves customers through two businesses globally: Life Sciences and Industrial. The Life Sciences business group is focused on developing, manufacturing and selling products to customers in the Medical, BioPharmaceuticals and Food & Beverage markets. The Industrial business group is focused on developing, manufacturing and selling products to customers in the Energy & Water, Aeropower and Microelectronics markets.

These businesses are supported by Corporate and Shared Services groups that facilitate the Company’s corporate governance and business activities globally and a core portfolio of intellectual property that underlies the products sold by the business groups. Company management believes that this structure positions the Company for future profitable growth with holistic focus on the global marketplace presenting opportunities for sales growth, efficiencies and cost reduction in both businesses, as well as in the Company’s Corporate and Shared Services group infrastructure, while efficiently leveraging its entire intellectual property portfolio to the marketplaces.

For financial information of the Company by operating segment and geography, please see Note 18, Segment Information and Geographies, to the accompanying consolidated financial statements and the information under the caption “Review of Operating Segments” in Management’s Discussion and Analysis of Financial Condition and Results of Operations (Part II – Item 7. of this report).

With few exceptions, research and development activities conducted by the Company are Company sponsored. Research and development expenses totaled \$86,805,000 in fiscal year 2011, \$74,944,000 in fiscal year 2010 and \$71,213,000 in fiscal year 2009.

No one customer accounted for 10% or more of the Company’s consolidated sales in fiscal years 2011, 2010, or 2009.

The Company is in substantial compliance with federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. To date, compliance with environmental matters has not had a material effect upon the Company’s capital expenditures or competitive position. For a further description of environmental matters in this report, see Part I – Item 3. – Legal Proceedings, and Note 14, Contingencies and Commitments, to the accompanying consolidated financial statements.

At July 31, 2011, the Company employed approximately 10,900 persons.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the “Exchange Act”). The Company therefore files periodic reports, proxy statements and other information with the United States (“U.S.”) Securities and Exchange Commission (“SEC”). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an internet website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements and other information.

The Company’s website address is [www.pall.com](http://www.pall.com). The Company makes available, free of charge in the investor section of its website, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Financial and other information can also be accessed on the website.

Copies of financial and other information are also available free of charge by calling (516) 484-5400 or by sending a request to Pall Corporation, Attn: Investor Relations, 25 Harbor Park Drive, Port Washington, NY, 11050. Information on the Company’s website is not incorporated into this Form 10-K or its other securities filings and is not a part of them.



OPERATIONS:

Pall Corporation is a broad-based filtration, separation and purification company. Its proprietary products are used to discover, develop and produce biotechnology drugs, vaccines, protect hospital patients as in the case of the Company's blood, breathing circuit and hospital water filters, enhance the quality and efficiency of manufacturing processes, keep equipment (such as manufacturing equipment and airplanes) running efficiently, produce safe drinking water and to protect the environment. Requirements for product quality, purity, environmental protection, health and safety apply to a wide range of industries and across geographic borders. The Company has more than a 60-year history of commercializing innovative products and continues to develop new materials and technologies for its Life Sciences and Industrial customers and their increasingly difficult fluid filtration, purification and separation challenges. The Company has an array of core materials and technologies that can be combined and manipulated in many ways to solve complex fluid separation challenges. These proprietary materials and technologies, coupled with the Company's ability to engineer them into useful forms and place them into fully integrated systems, are the cornerstone of the Company's capabilities. Proprietary materials and technologies, customer process knowledge, and engineering know-how enable the Company to provide customers with products that are well matched to their needs, to develop new products and to enter new markets.

The global drivers for the filtration, separation and purification market include increasing potable/recyclable/dischargeable water and energy demands, emerging and mutating pathogens, changes in global demographics including rising standards of medical care in emerging economies, an aging population ingesting higher levels of preventative and/or personalized pharmaceuticals, environmental concerns and regulations, industrial globalization and consolidation, increasing government regulations and process innovation and optimization. These all require more and ever finer levels of filtration, separation and purification. Opportunities to filter water exist in every one of the Company's markets. The Company has a balanced portfolio of products that are sold into diversified markets. The Company's strategy for growth includes expansion in high-growth geographies such as Asia, Eastern Europe, the Middle East and Latin America as well as focusing on high-growth markets such as biotechnology, diagnostics, cell therapy, vaccine production, micro and macroelectronics, next-generation aircraft, energy and water. The Company's products help to meet the evolving needs of markets worldwide.

The Company actively pursues applications in which its products can make a substantial difference to customers and especially targets projects, under the umbrella of its Total Fluid Management<sup>SM</sup> ("TFM") strategy, whereby it can engineer integrated filtration, purification and separation systems to enhance performance and economics. The TFM strategy leverages the Company's resources and capabilities to help its customers improve operating efficiencies within their processes through the optimal selection and integration of filtration and separation products. This approach makes use of the Company's engineering and scientific expertise in fluid management to create unique and cost-effective solutions for customers. Integrated systems are an important part of this approach, and generally couple or automate filtration/separation steps for greater efficiency and ease and economy of use. These systems typically include the Company's proprietary consumable filtration products and appurtenant hardware. When fully commissioned, Company management expects these systems to provide an ongoing annuity stream for the Company's consumable filtration products. System sales accounted for 12.5% of fiscal 2011 revenues. This is about the Company's average for system sales in the last five fiscal years. Consumable filtration products sold are principally filters made with proprietary Company filter media produced by chemical film casting, melt blowing of polymer fibers, papermaking and metallurgical processes.

The Company is executing a full suite of initiatives aimed at strengthening its supply chain while increasing efficiency and reducing costs. Such improvement initiatives include consolidation of its European and Asian supply chain and demand planning leadership activities into Switzerland and Singapore, respectively, procurement activities and "lean manufacturing." The Company is also executing major initiatives to streamline processes and infrastructure.

Competition is intense in all of the Company's markets and includes numerous large companies and many smaller regional competitors. In many cases, the Company's primary competition comes from alternative, often older technologies, such as chemical additives, sand filtration, and pasteurization as opposed to the finer level of membrane filtration that the Company provides. In many markets, there are significant barriers to entry limiting the number of qualified suppliers. These barriers result from stringent product performance standards, product qualification protocols and requirements for consistent levels of global service and support. The Company's broad array of materials and product designs coupled with its engineering and manufacturing expertise and global reach enable it to provide customers with differentiated product performance and value, and global customer support.

LIFE SCIENCES SEGMENT:

The Company's Life Sciences technologies facilitate the process of drug discovery, development, regulatory validation and production. They are used extensively in the research laboratory, pharmaceutical, biotechnology and food and beverage industries, in blood centers and in hospitals at the point of patient care. The Company's broad capability in the life sciences industry is a competitive strength and an important element of its strategy going forward. Sales in the Medical, BioPharmaceuticals and Food & Beverage markets are made through direct sales and distributors.

Safety, quality, efficacy, ease of use, technical support, product delivery and price are all important considerations among the Company's Life Sciences customers. Pricing for blood filtration products is a strong consideration as customers are typically large centralized procurers, such as blood centers in the Western Hemisphere and nationalized blood services in Europe and Asia. The backlog for the Life Sciences segment at July 31, 2011 was approximately \$247,171,000 (all of which is expected to be shipped in fiscal year 2012) compared with \$203,983,000 at July 31, 2010.

MEDICAL MARKET:

The Company's medical products improve the safety of the use of blood products in patient care and help control the spread of infections in hospitals. The Company's cell therapy product portfolio provides enabling technologies for the emerging regenerative medicine market.

Products related to transfusion therapy represent a significant portion of Life Sciences sales. For example, the Company's blood filters remove unwanted white blood cells from donor blood. Its Acrodose™ PL System enables blood centers to tap into the abundant, but often discarded, supply of whole blood platelets. Hospital-acquired infections are a growing problem for patients and the world's health care systems. The Company's breathing-circuit, intravenous and point-of-use Pall-Aquasafe™ water filters help protect people from these infections.

The backlog for the Medical market at July 31, 2011 was approximately \$45,886,000 (all of which is expected to be shipped in fiscal year 2012) compared with \$42,829,000 at July 31, 2010. The Company's principal competitors in the Medical market include Fenwal, Inc., MacoPharma Group, Fresenius Medical Care AG & Co., Merck Millipore (a division of Merck KGaA), GE Healthcare (a unit of General Electric Company ("GE")), Tyco International Ltd., Teleflex Incorporated, Terumo Medical Corporation, and Capital Health Inc.

BIOPHARMACEUTICALS MARKET:

The Company sells a broad line of filtration and purification technologies, appurtenant hardware and engineered systems primarily to pharmaceutical and biotechnology companies for use by them in the development and commercialization of chemically synthesized and biologically derived drugs, plasma and vaccines. The Company provides a broad range of advanced filtration solutions for each critical stage of drug development through drug production. Its filtration systems and validation services assist drug manufacturers through the regulatory process through commercialization. The Company's laboratory product line is used in areas such as drug research and discovery, quality control testing and in environmental monitoring applications for a host of industries.

The fastest growing part of the market is the biotechnology industry, now comprising approximately 75% of total BioPharmaceuticals revenue. Biotechnology drugs and biologically derived vaccines are filtration and purification intensive. A key growth driver is increasing adoption of single-use processing technologies for drug production as a replacement for "hard-piped" steel factories. Disposable systems provide customers many advantages including smaller capital outlays and flexible use of manufacturing floor space. They reduce the risk of cross-contamination between batches and eliminate costly and time-consuming cleaning and cleaning validation steps.

Company management believes that the Company's established record of product performance and innovation, as well as its ability to sell and globally support a complete range of products, including its engineered systems, provide a strong competitive advantage among BioPharmaceuticals customers reflecting the high costs and safety risks associated with drug development and production. The backlog for the BioPharmaceuticals market at July 31, 2011 was approximately \$155,321,000 (all of which is expected to be shipped in fiscal year 2012) compared with \$129,879,000 at July 31, 2010. Principal competitors in the BioPharmaceuticals market include Merck Millipore (a division of Merck KGaA), The Sartorius Group, CUNO (a 3M company) and GE Healthcare (a unit of GE).

FOOD & BEVERAGE MARKET:

Within the Food & Beverage market, the Company serves the filtration needs of the beer, wine, dairy, soft drink, bottled water, and food ingredient markets. The Company's TFM strategy and capabilities help customers to ensure the quality of their products while lowering

operating costs and minimizing waste.



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The backlog for the Food & Beverage market at July 31, 2011 was approximately \$45,964,000 (all of which is expected to be shipped in fiscal year 2012) compared with \$31,275,000 at July 31, 2010. Principal competitors in the Food & Beverage market include Pentair, Inc., Filtrix Group, The Sartorius Group, BEGEROW and Parker domnick hunter, a division of Parker Hannifin.

### INDUSTRIAL SEGMENT:

The Company provides enabling and process enhancing technologies throughout the industrial marketplace. This includes the Energy & Water, Aeropower and Microelectronics markets. Reflecting its TFM strategy, the Company has the capability to provide customers with integrated solutions for their process fluids which typically include the Company's proprietary consumable filtration products and appurtenant hardware as well as systems. When fully commissioned, Company management expects these systems to provide an ongoing annuity stream for the Company's consumable filtration products. Systems sales account for 17.3% of the Industrial segment's revenues in fiscal year 2011 compared to 16.0% in fiscal year 2010. Virtually all of the raw materials, process fluids and waste streams that course through industry are candidates for multiple stages of filtration, separation and purification. The backlog for the Industrial segment at July 31, 2011 was approximately \$568,377,000 (of which approximately 84% is expected to be shipped in fiscal year 2012) compared with \$466,493,000 at July 31, 2010.

### ENERGY & WATER MARKET:

This market consists of producers of energy, oil, gas, renewable and alternative fuels, electricity, chemicals and municipal water. The growing demand for energy produced using clean and green technologies, including careful use and reuse of water, creates growth opportunities for the Company.

Within the Energy submarket, demand is driven by oil and gas producers, refineries and power generating stations working to increase production, produce cleaner burning fuels, conserve water, meet environmental regulations and develop alternative fuel sources. Each of these applications provides opportunities for the Company. The fastest growing part of this submarket is in emerging regions, such as the Middle East, Latin America and China.

Technologies that purify water for use and reuse represent an important opportunity. Governments around the world are implementing stringent new regulations governing drinking water standards and Company management believes that its filters and systems provide a solution for these requirements. These standards apply to municipal water supplies throughout the U.S. and in a growing number of countries. Industry, which consumes enormous quantities of water, also increasingly needs to filter it before, during and after use both to conserve it and to ensure it meets discharge requirements.

Revenues in this market comprise the largest part of the Company's capital-based revenues, including systems and hardware. Approximately 50% of fiscal year 2011 revenues in this market were derived from capital-based revenues. The backlog at July 31, 2011 was approximately \$327,668,000 (of which approximately 79% is expected to be shipped in fiscal year 2012) compared with \$269,447,000 at July 31, 2010. Sales to Energy & Water customers are made through Company personnel, distributors and manufacturers' representatives. The Company believes that its TFM strategy and ability to engineer fully integrated systems, underscored by product performance and quality, customer service, and price, are the principal competitive factors in this market. The Company's primary competitors in the Energy & Water market include CUNO (a 3M company), GE Infrastructure (a unit of GE), U.S. Filter (a Siemens business) and CLARCOR Inc.

### AEROPOWER MARKET:

The Company sells filtration and fluid monitoring equipment to the aerospace industry for use on commercial and military aircraft, ships and land-based military vehicles to help protect critical systems and components. The Company also sells filtration solutions to the Machinery & Equipment submarkets, which consist of a grouping of producers of mobile equipment and trucks, pulp and paper, mining, automotive and metals. Commercial, Military and Machinery & Equipment sales represented 21%, 23% and 56%, respectively, of total Aeropower sales in fiscal year 2011. Key drivers in this market include passenger air miles flown, military budgets, new military and commercial aircraft, and demand for new aircraft, the mining industry, particularly in countries such as Brazil, Africa, China and Australia, and mobile construction equipment in emerging geographies, particularly in Asia and Latin America. Increasing environmental regulation faced by the Company's customers, as well as customer requirements for improved equipment reliability and fuel efficiency impact demand.

The Company's products are sold to customers through a combination of direct sales to airframe manufacturers and other customers, including the U.S. military, and through the Company's distribution partner, Satair A/S, for the commercial aerospace "aftermarket," such as sales to commercial airlines. The backlog at July 31, 2011 was approximately \$207,867,000 (of which approximately 89% is expected to be shipped in fiscal year 2012) compared with \$163,008,000 at July 31, 2010. Competition varies by product and application. The Company's principal competitors in the Aeropower market include Donaldson Company, Inc., Parker Hannifin Corporation, ESCO Technologies Inc. and CLARCOR Inc.

Company management believes that product efficacy, performance and quality, service and price are determinative in most sales.

#### MICROELECTRONICS MARKET:

The Company sells highly sophisticated filtration and purification technologies for the semiconductor, data storage, fiber optic, advanced display, solar and materials markets. The Company provides a comprehensive suite of contamination control solutions for chemical, gas, water, chemical mechanical polishing and photolithography processes to meet the needs of this demanding industry. Integrated circuits, which control almost every device or machine in use today, require exceedingly high levels of filtration technologies which the Company provides. Diversification into the "macroelectronics" market has enabled the Company to capitalize on demand for tablet computers, smart phones, computer gaming consoles, MP3 players, flat screen TVs and monitors, multimedia cell phones and ink jet printers and cartridges. Newer applications served by Microelectronics are the production of solar cells and the emerging "high bright" LED market.

The Company's products are sold to customers in this market through its own personnel, distributors and manufacturers' representatives. The backlog at July 31, 2011 was approximately \$32,842,000 (of which approximately 99% is expected to be shipped in fiscal year 2012) compared with \$34,038,000 at July 31, 2010. Company management believes that performance, product quality, innovation and service are the most important factors in the majority of sales in this market. The Company's principal competitors in the Microelectronics market include Entegris, Inc. and Mott Corporation.

The following comments relate to the two operating segments discussed above:

#### RAW MATERIALS:

Most raw materials used by the Company are available from multiple sources. A limited number of materials are proprietary products of major chemical companies. Management believes that the Company could obtain satisfactory substitutes for these materials should they become unavailable.

#### INTELLECTUAL PROPERTY:

The Company owns numerous U.S. and foreign patents and has patent applications pending in the U.S. and abroad. The Company also licenses intellectual property rights from third parties, some of which bear royalties and are terminable in specified circumstances. In addition to the Company's patent portfolio, the Company possesses a wide array of proprietary technology and know-how. The Company also owns numerous U.S. and foreign trademarks covering its diverse array of products, and has applications pending for the registration of trademarks. The Company believes that patents and other proprietary rights are important to the strength of the Company. The Company also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. The Company does not believe that the expiration of any individual patent or any patents due to expire in the foreseeable future will have a material adverse impact on its business, financial condition or results of operations in any one year.

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### EXECUTIVE OFFICERS OF THE REGISTRANT:

Name	Age(1)	Current Positions Held	First Appointed an Executive Officer
Eric Krasnoff	59	Chief Executive Officer and President	1986
Lisa McDermott	46	Chief Financial Officer and Treasurer	2006
Roberto Perez	62	Chief Operating Officer	2003
Yves Baratelli	46	Group Vice President and President, Life Sciences	2010
Wolfgang Platz	53	Group Vice President and President, Industrial	2011
Robert Kuhbach	64	Senior Vice President, General Counsel and Corporate Secretary	2011

(1) Age as of September 21, 2011.

None of the persons listed above is related.

Eric Krasnoff has served as Chief Executive Officer since July 1994 and as President of the Company since August 2010. Since joining the Company in 1975, Mr. Krasnoff served in several corporate management positions, including Group Vice President and Executive Vice President. He was elected President and Chief Operating Officer of the Company in 1993. Mr. Krasnoff also serves as a director of the Company and was Chairman of the Board from 1994 until March 2011. Mr. Krasnoff is scheduled to retire effective October 3, 2011, and will be succeeded in his current roles by Lawrence D. Kingsley, who will also become a director as of such date.

Lisa McDermott has served as Chief Financial Officer and Treasurer since January 2006. Ms. McDermott began her employment with the Company in 1999 as Corporate Controller and was promoted to Vice President - Finance in July 2004.

Roberto Perez has served as Chief Operating Officer since May 2010. Mr. Perez joined the Company in 2000 as President of the Medical Products Manufacturing Group. In March 2001, Mr. Perez was promoted to Vice President of the Company's blood filtration submarket. Mr. Perez was promoted to President, Life Sciences in November 2004.

Yves Baratelli has served as President, Life Sciences, since May 2010. Mr. Baratelli began his employment with the Company in 2002 as President of Pall Medical, Europe. He was promoted to President of Pall Life Sciences Europe two years later and soon thereafter, assumed responsibility for Pall Life Sciences Asia.

Wolfgang Platz has served as President, Industrial, since February 2011. Mr. Platz joined the Company in 1981 as a sales engineer and has held many management positions with the company, including President, Food and Beverage, and President, Pall Industrial Europe.

Robert Kuhbach has served as Senior Vice President, General Counsel and Corporate Secretary of the Company since January 2011, when he joined the Company as a consultant. Mr. Kuhbach retired from Dover Corporation in December 2009 where he served as Vice President-Finance and Chief Finance Officer from November 2002 to July 2009 and, for almost 10 years prior to January 2003, served as Vice President, General Counsel and Secretary.

None of the above persons has been involved in those legal proceedings required to be disclosed by Item 401(f) of Regulation S-K during the past ten years.

ITEM 1A. RISK FACTORS.

The risk factors described below are not inclusive of all risk factors but highlight those that the Company believes are the most significant and that could impact its performance and financial results. These risk factors should be considered together with all other information presented in this Form 10-K.

The Company may be adversely affected by global and regional economic conditions and legislative, regulatory and political developments.

The Company conducts operations around the globe. The Company expects to continue to derive a substantial portion of sales and earnings from outside the U.S. The uncertain macroeconomic environment in the U.S. and other countries around the globe in which the Company derives significant sales adversely affected the Company's results for fiscal year 2009 and 2010 and could continue to have a negative impact on demand for the Company's products as the prospects, strength and timing of the current recovery remain uncertain as well as the possibility of a return to a recession in the U.S. and other countries around the globe. Customers or suppliers may experience cash flow problems and as a result, may modify, delay or cancel plans to purchase the Company's products and suppliers may significantly and quickly increase their prices or reduce their output. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, amounts owed to the Company. Any inability of current and/or potential customers to purchase the Company's products and/or to pay the Company for its products may adversely affect the Company's sales, earnings and cash flow. Sales and earnings could also be affected by the Company's ability to manage the risks and uncertainties associated with the application of local legal requirements or the enforceability of laws and contractual obligations, trade protection measures, changes in tax laws, regional political instability, war, terrorist activities, severe or prolonged adverse weather conditions and natural disasters as well as health epidemics or pandemics.

Changes in product mix and product pricing may affect the Company's operating results particularly with the expansion of the systems business and appurtenant hardware & devices (together "Capital Goods") for the Company's consumable filtration products, in which the Company experiences significantly longer sales cycles with less predictable revenue and no certainty of future revenue streams from related consumable product offerings and services.

The Company's TFM strategy is partially reliant on sales of Capital Goods. Because these are generally sold at lower gross margins than many other products, gross margins could decline if these Capital Goods sales continue to grow as a percentage of total sales and the anticipated future revenue streams from related consumable product offerings and services are not realized.

The Company's Capital Goods generally also experience significantly longer sales cycles and involves less predictable revenue and uncertainty of future revenue streams from related consumable product offerings and services. In addition, the profitability of the Company's Capital Goods sales depends substantially on the ability of management to estimate accurately the costs involved in manufacturing and implementing the relevant capital product according to the customer's specifications. Company estimates can be adversely affected by disruptions in a customer's plans or operations and unforeseen events, such as manufacturing defects. Failure to accurately estimate the Company's cost of Capital Goods sales can adversely affect the profitability of those sales, and the Company may not be able to recover lost profits through pricing or other actions.

Changes in demand for the Company's products and business relationships with key customers and suppliers, including delays or cancellations in shipments, may affect operating results.

To achieve its objectives, the Company must develop and sell products that are subject to the demands of customers. This is dependent on many factors including, but not limited to, managing and maintaining relationships with key customers, responding to the rapid pace of technological change and obsolescence, which may require increased investment by or greater pressure to commercialize developments rapidly or at prices that may not fully recover the associated investment, and the effect on demand resulting from customers' research and development, capital expenditure plans and capacity utilization.

The manufacturing of the Company's products is dependent on an adequate supply of raw materials. The Company's ability to maintain an adequate supply of raw materials could be impacted by the availability and price of those raw materials and related commodities and maintaining relationships with key suppliers.

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The Company's future growth depends on new products and new technology innovation.

The Company's future growth depends in part on maintaining its competitive advantage with current products in new and existing markets, as well as its ability to develop new products and technologies to serve such markets. To the extent that competitors develop competitive products and technologies, or new products or technologies which achieve higher customer satisfaction, the Company's business prospects could be adversely impacted. In addition, regulatory approvals for new products or technologies may apply in some cases, which approvals may not be realized in a timely or cost effective manner, adversely impacting the Company's business prospects.

The Company is subject to significant regulatory obligations.

The Company's operations are subject to a broad array of regulatory requirements globally. In particular, a number of its Life Science business units must satisfy domestic and international standards in the medical, biopharmaceuticals and other health sciences areas involving products and technologies which impact human health and safety. To a lesser degree, some of its Industrial operations must meet governmental requirements in terms of contracting, financial accounting standards, product testing and reporting. There are also business operations which produce products regulated by import/export regulations because their actual or potential use is considered sensitive and involves substantial licensing and record-keeping obligations. Last, given the Company's substantial operations and sales abroad, there are risks associated with doing business in foreign countries particularly in connection with governmental sales, notably the risk of non-compliance with U.S. or local anti-corruption regulations. Failure to meet one or more of these various regulatory obligations could have adverse consequences in the event of material non-compliance.

If the Company experiences a disruption of its information technology systems, or if the Company fails to successfully implement, continue to manage and integrate its information technology systems, it could harm the Company's business.

The Company's information technology ("IT") systems are an integral part of its business. A serious disruption of its IT systems, whether caused by fire, storm, flood, telecommunications failures, physical or software break-ins or viruses, or any other events, could have a material adverse effect on the Company's business and results of operations. The Company depends on its IT systems to process transactions, prepare its financial reporting and effectively manage and monitor its business. The Company cannot provide assurance that its contingency plans will allow it to operate at its current level of efficiency in the event of a serious IT disruption.

Additionally, the Company's ability to most effectively implement its business plans in a rapidly evolving market requires effective planning, reporting and analytical processes and systems. The Company is improving and expects that it will need to continue to improve and further integrate its IT systems, reporting systems and operating procedures on an ongoing basis. If the Company fails to do so effectively, it could adversely affect the Company's ability to achieve its objectives.

Changes in the Company's effective tax rate may affect operating results.

Fluctuations in the Company's effective tax rate may affect operating results. The Company's effective tax rate is subject to fluctuation based on a variety of factors, such as:

- the geographical mix of income derived from the countries in which it operates;
- currently applicable tax rates, particularly in the U.S.;
- the nature, timing and impact of permanent or temporary changes in tax laws or regulations;
- the timing and amount of the Company's repatriation of foreign earnings;
- the timing and nature of the Company's resolution of uncertain income tax positions; and
- the Company's success in managing its effective tax rate through the implementation of global tax and cash management strategies.

The Company operates in numerous countries and is subject to taxation in all of the countries in which it operates. The tax rules and regulations in such countries can be complex and, in many cases, uncertain in their application. In addition to challenges to the Company's tax positions arising during routine audits, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved and with respect to intercompany transactions when the parties are taxed in different jurisdictions. Pending proceedings to which the Company is subject include ongoing audits of the Company's tax returns for some of the periods

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affected by the restatement, and the Company cannot predict the timing or outcome of the completion of those audits, which could result in the imposition of additional taxes. See "Litigation and regulatory inquiries associated with the restatement of the Company's prior period financial statements could result in substantial costs, penalties and other adverse effects" risk factor below.

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Fluctuations in foreign currency exchange rates and interest rates may materially affect operating results.

In fiscal year 2011, the Company derived 69% of sales from outside the U.S. Although sales and expenditures outside the U.S. with third parties are typically made in the local currencies of those countries providing a natural hedge against fluctuations in foreign currency rates, the company retains significant exposure to the value of foreign currencies relative to the U.S. dollar and the currencies of inter-company trading partners. Accordingly, operating results may be materially affected by changes in foreign currency rates. The primary foreign currency exposures relate to adverse changes in the following currency pairs: U.S. dollar to the Euro, the British Pound, the Japanese Yen, the Australian Dollar, the Canadian Dollar, the Swiss Franc and the Singapore Dollar, as well as adverse changes in the relationship of the Pound to the Euro.

The Company's debt portfolio was approximately 30% variable rate and cash and cash equivalents was 100% variable rate at July 31, 2011. Pension obligations, and attendant pension expense, are recognized on a discounted basis using long-term interest rates. Accordingly, fluctuations in short and long-term interest rates may also materially affect operating results.

Increases in costs of manufacturing and operating costs may affect operating results.

The Company's costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, energy and related utilities and cost of labor. The achievement of the Company's financial objectives is reliant on its ability to manage these fluctuations through cost savings or recovery actions and efficiency initiatives.

The Company may not be able to achieve the savings anticipated from its cost reduction and gross margin improvement initiatives.

The Company has been pursuing a number of longstanding cost reduction and gross margin improvement initiatives. Unexpected delays or other factors affecting the Company's execution of these initiatives could impact the Company's ability to realize the anticipated savings and to improve its financial performance.

The Company is subject to domestic and international competition in all of its global markets.

The Company is subject to competition in all of the global markets in which it operates. The Company's achievement of its objectives is reliant on its ability to successfully respond to many competitive factors including, but not limited to, pricing, technological innovations, product quality, customer service, manufacturing capabilities and hiring and retention of qualified personnel. In addition, unforeseen disruptive technologies could significantly impact operating results.

Litigation and regulatory inquiries associated with the restatement of the Company's prior period financial statements could result in substantial costs, penalties and other adverse effects.

Substantial costs may be incurred to defend and resolve regulatory proceedings and litigation arising out of or relating to matters underlying the Company's restatement of prior period financial statements as described in its Form 10-K for the fiscal year ended July 31, 2007 ("2007 Form 10-K"). These proceedings included investigations by the SEC and the Department of Justice, which have been inactive since fiscal year 2010, securities class action lawsuits and derivative lawsuits seeking relief against certain of the Company's officers and directors. The governmental proceedings could also result in civil or criminal fines and other non-monetary penalties.

The Company has substantial D&O insurance coverage with insurance companies having an A.M. Best rating of A or better. The Company cannot predict whether all possible monetary losses it ultimately experiences in the proceedings will be covered by insurance or whether insurance proceeds recovered will be sufficient to offset such losses. However, based on the Company's current assessment of the ultimate resolution of these matters, appropriate contingent liabilities and related insurance recoveries of an equal amount have been reflected in the consolidated financial statements as of July 31, 2011. Pending civil, regulatory and criminal proceedings may also divert the efforts and attention of the Company's management from business operations, particularly if adverse developments are experienced in any of them, such as an expansion of the investigations being conducted by the SEC and the Department of Justice. See Part I – Item 3. – Legal Proceedings, for further discussion of these pending matters. The Company is also subject to the ongoing audits of the Company's tax returns for some of the periods affected by the restatement.

Restrictive covenants in the Company's debt facilities could adversely affect its business.

Agreements governing the Company's indebtedness include certain covenants, that among other things, can restrict the Company's ability to incur additional indebtedness, make investments and other restricted payments, enter into sale and leaseback transactions, create liens and sell

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assets. Moreover, certain of these agreements require the Company to maintain specified financial ratios. These and other covenants in the Company's agreements may restrict the Company's ability to fully pursue its business strategies. The Company's ability to comply with such covenants may be affected by events beyond its control. Failure to comply with these covenants could result in an event of default which, if not cured or waived, may have a material adverse effect on the Company's financial condition, results of operations and cash flow.



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The Company may not successfully enforce patents and protect proprietary products and manufacturing techniques.

Some of the Company's products, as well as some competitor's products, are based on patented technology and other intellectual property rights. Some of these patented technologies and other intellectual property require substantial resources to develop. Operating results may be affected by the costs associated with the Company's defense of its intellectual property against unauthorized use by others, as well as third-party challenges to its intellectual property. The Company could also experience disruptions in its business, including loss of revenues and adverse effects on its prospects, if its patented or other proprietary technologies are successfully challenged.

The Company may not be able to successfully complete or integrate acquisitions.

In so far as acquisition opportunities are identified, there is no assurance of the Company's ability to complete any such transactions and successfully integrate the acquired business as planned.

### ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

### ITEM 2. PROPERTIES.

The Company's primary facilities (i.e., facilities with square footage in excess of 25,000 square feet), which support its Life Sciences, Industrial and Corporate/Shared Services Groups, are comprised of facilities whose principal activities related to manufacturing, laboratories for research & development and validation, warehousing, and selling, marketing and administration, which in the opinion of management are suitable and adequate to meet the Company's requirements:

Location	Owned (Square Footage)	Leased (Square Footage)	Total (Square Footage)
Western Hemisphere	2,109,000	609,000	2,718,000
Europe	1,871,000	122,000	1,993,000
Asia	122,000	645,000	767,000
Total	4,102,000	1,376,000	5,478,000

ITEM 3. LEGAL PROCEEDINGS.

Federal Securities Class Actions:

Four putative class action lawsuits were filed against the Company and certain members of its management team alleging violations of the federal securities laws relating to the Company's understatement of certain of its U.S. income tax payments and of its provision for income taxes in certain prior periods as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K. These lawsuits were filed between August 14, 2007 and October 11, 2007 in the U.S. District Court for the Eastern District of New York. By Order dated May 28, 2008, the Court consolidated the cases under the caption "In re Pall Corp," No. 07-CV-3359 (E.D.N.Y.) (JS) (ARL), appointed a lead plaintiff and ordered that the lead plaintiff file a consolidated amended complaint. The lead plaintiff filed its consolidated amended complaint on August 4, 2008. The lead plaintiff seeks to act as representative for a class consisting of purchasers of the Company's stock between April 20, 2007, and August 2, 2007, inclusive. The consolidated amended complaint names the Company and its current chief executive officer and chief financial officer as defendants and alleges violations of Section 10(b) and 20(a) of the Exchange Act, as amended, and Rule 10b-5 promulgated by the Securities and Exchange Commission. It alleges that the defendants violated these provisions of the federal securities laws by issuing materially false and misleading public statements about the Company's financial results and financial statements, including the Company's income tax liability, effective tax rate, internal controls and accounting practices. The plaintiffs seek unspecified compensatory damages, costs and expenses. The Company moved to dismiss the consolidated amended complaint on September 19, 2008, and filed its reply brief to the lead plaintiff's opposition to the Company's motion to dismiss on December 2, 2008. By Memorandum and Order dated September 21, 2009, the Court denied the Company's motion to dismiss the consolidated amended complaint and granted the lead plaintiff leave to amend the consolidated amended complaint by filing a second amended complaint. On October 9, 2009, the Company moved for certification for interlocutory appeal, and the Court denied the motion by Memorandum and Order entered November 25, 2009. During the fiscal year ended July 31, 2011, discovery resumed and is currently expected to be complete by December 31, 2011. The lead plaintiff has requested that the court extend the discovery period into 2012.

Shareholder Derivative Lawsuits:

On October 5, 2007, two plaintiffs filed identical derivative lawsuits in New York Supreme Court, Nassau County, relating to the Company's understatement of certain of its U.S. income tax payments and of its provision for income taxes in certain prior periods as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K. These actions purported to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties by failing to evaluate and otherwise inform themselves about the Company's internal controls and financial reporting systems and procedures. In addition, plaintiffs alleged that certain officers of the Company were unjustly enriched as a result of the Company's inaccurate financial results over fiscal years 1999-2006 and the first three quarters of fiscal year 2007. The complaints sought unspecified compensatory damages on behalf of the Company, disgorgement of defendants' salaries, bonuses, stock grants and stock options, equitable relief and costs and expenses. The Company, acting in its capacity as nominal defendant, moved to dismiss the complaints for failure to make a demand upon the Company's board of directors, which motions were granted on April 30 and May 2, 2008. On September 19, 2008, the same two plaintiffs filed a derivative lawsuit in New York Supreme Court, Nassau County, which was served on the Company on September 26, 2008 (the "Saxton Derivative"). This action purports to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties and were unjustly enriched in connection with the tax matter. In addition, the plaintiffs allege that the board's refusal of their demand to commence an action against the defendants was not made in good faith. The plaintiffs and the Company agreed to stay this proceeding pending resolution of the Company's motion to dismiss in the federal securities class action lawsuit related to the tax matter after which resolution the plaintiffs and the Company agreed to confer about a schedule for the defendants' time to answer or otherwise respond to the complaint.

On September 21, 2009, the United States District Court for the Eastern District of New York denied the Company's motion to dismiss the consolidated amended complaint in the federal securities class action lawsuit. On October 9, 2009, the Company moved for certification for interlocutory appeal in the federal securities class action lawsuit, and the Court denied the motion by Memorandum and Order entered November 25, 2009. The Saxton Derivative is no longer stayed.

On January 10, 2008, a third shareholder filed a derivative lawsuit in the U.S. District Court for the Eastern District of New York. That action, which purported to bring claims on behalf of the Company, alleged breaches of fiduciary duty, unjust enrichment, and insider selling and misappropriation of information by certain directors and officers of the Company. On March 10, 2008, the defendants moved to dismiss on the grounds that the complaint failed to establish that federal subject matter existed over the action. The plaintiff subsequently voluntarily dismissed the action without prejudice.

On November 13, 2008, a fourth shareholder filed a derivative lawsuit in New York Supreme Court, Nassau County, against certain current and former directors and officers of the Company, and against the Company, as nominal defendant, which was served on the Company on

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December 4, 2008 (the “Hoadley Derivative”). The Hoadley Derivative action purports to bring similar claims as the Saxton Derivative. The plaintiffs and the Company have agreed to an identical stay as in the Saxton Derivative. The action is no longer stayed.

On January 28, 2011, an additional shareholder filed a derivative lawsuit in New York Supreme Court, Nassau County, against certain current and former directors and officers of the Company, and against the Company as nominal defendant (the “Nadoff Derivative”). The action purports to bring claims on behalf of the Company similar to those alleged in the Saxton and Hoadley Derivative actions. The complaint seeks damages, together with various injunctive and declaratory relief. On March 30, 2011, the defendants moved to dismiss or, in the alternative, to stay the last-filed Nadoff derivative action. That motion has been adjourned.

Other Proceedings:

The SEC and U.S. Attorney's Office for the Eastern District of New York conducted investigations in connection with the tax matter described above in fiscal years 2008 and 2009. The Company cooperated with these investigations. Since fiscal year 2010, these proceedings have been inactive.

Environmental Matters:

The Company has environmental matters, discussed below, at the following three U.S. sites: Ann Arbor, Michigan; Pinellas Park, Florida and Glen Cove, New York.

The Company's balance sheet at July 31, 2011 contains environmental liabilities of \$15,286,000 which relate to the items discussed below. In the opinion of Company management, the Company is in substantial compliance with applicable environmental laws and regulatory orders and its accruals for environmental remediation are adequate at this time.

Reference is also made to Note 14, Contingencies and Commitments, to the accompanying consolidated financial statements.

Ann Arbor, Michigan:

In February 1988, an action was filed in the Circuit Court for Washtenaw County, Michigan (the "Court") by the State of Michigan (the "State") against Gelman Sciences Inc. ("Gelman"), a subsidiary acquired by the Company in February 1997. The action sought to compel Gelman to investigate and remediate contamination near Gelman's Ann Arbor facility and requested reimbursement of costs the State had expended in investigating the contamination, which the State alleged was caused by Gelman's disposal of waste water from its manufacturing process. Pursuant to a consent judgment entered into by Gelman and the State in October 1992 (amended September 1996 and October 1999) (the "Consent Judgment"), which resolved that litigation, Gelman is remediating the contamination without admitting wrongdoing. In February 2000, the State Assistant Attorney General filed a Motion to Enforce Consent Judgment in the Court seeking approximately \$4,900,000 in stipulated penalties for the alleged violations of the Consent Judgment and additional injunctive relief. Gelman disputed these assertions. Following an evidentiary hearing in July 2000, the Court took the matter of penalties "under advisement." The Court issued a Remediation Enforcement Order requiring Gelman to submit and implement a detailed plan to reduce the contamination to acceptable levels within five years. Gelman's plan has been approved by both the Court and the State. Although groundwater concentrations remain above acceptable levels in much of the affected area, the Court has expressed its satisfaction with Gelman's progress during hearings both before and after the five-year period expired. Neither the State nor the Court has sought or suggested that Gelman should be penalized based on the continued presence of groundwater contamination at the site.

In February 2004, the Court instructed Gelman to submit its Final Feasibility Study describing how it intends to address an area of groundwater contamination not addressed by the previously approved plan. Gelman submitted its Feasibility Study as instructed. The State also submitted its plan for remediating this area of contamination to the Court. On December 17, 2004, the Court issued its Order and Opinion Regarding Remediation and Contamination of the Unit E Aquifer (the "Order") to address an area of groundwater contamination not addressed in the previously approved plan. Gelman is implementing the requirements of the Order.

In correspondence dated June 5, 2001, the State asserted that stipulated penalties in the amount of \$142,000 were owed for a separate alleged violation of the Consent Judgment. The Court found that a "substantial basis" for Gelman's position existed and again took the State's request "under advisement," pending the results of certain groundwater monitoring data. That data has been submitted to the Court, but no ruling has been issued.

On August 9, 2001, the State made a written demand for reimbursement of \$227,000 it has allegedly incurred for groundwater monitoring. On October 23, 2006, the State made another written demand for reimbursement of these costs, which now total \$494,000, with interest. In February 2007, the Company met with the State to discuss whether the State would be interested in a proposal for a "global settlement" to include, among other matters, the claim for past monitoring costs (\$494,000). Gelman is engaged in discussion with the State with regard to this demand, however, Gelman considers this claim barred by the Consent Judgment.

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By letter dated June 15, 2007, the Michigan Department of Environmental Quality (“MDEQ”) claimed Gelman was in violation of the Consent Judgment and related work plans due to its failure to operate a groundwater extraction well in the Evergreen Subdivision at the approved minimum purge rate. The MDEQ sought to assess stipulated penalties. Gelman filed a Petition for Dispute Resolution with the Court on July 6, 2007 contesting these penalties. Prior to the hearing on Gelman’s petition, the parties met and the MDEQ agreed to waive these penalties in exchange for Gelman’s agreement to perform additional investigations in the area. The Court entered a Stipulated Order to this effect on August 7, 2007. Since then, Gelman has installed several monitoring wells requested by the State. Representatives of Gelman and the State met on December 10, 2007 to discuss the data obtained from these wells and to plan further investigative activities. On April 15, 2008, Gelman submitted two reports summarizing the results of the investigation to date. Gelman also submitted a “capture zone analysis” that confirmed that Gelman was achieving the cleanup objective for the Evergreen Subdivision system. On June 23, 2008, the State provided its response to these reports. The response also addressed outstanding issues regarding several other areas of the site. In its response, the State asked the Company to undertake additional investigation in the Evergreen Subdivision area and in other areas of the site to more fully delineate the extent of contamination. The State also asked the Company to capture additional contaminated groundwater in the Wagner Road area, near the Gelman property, unless the Company can show that it is not feasible to do so. Gelman proposed to the MDEQ several modifications to the Consent Judgment on August 1, 2008 and met with the MDEQ to discuss these modifications (and other outstanding issues) on September 15, 2008. The parties agreed that Gelman would prepare and submit to the MDEQ an outline for modifications to the existing Consent Judgment (and Administrative Orders) by October 15, 2008 and that the parties would meet thereafter to discuss. On April 29, 2009, the Court issued an order that sets forth a schedule for the various steps that must be taken to implement agreed upon modifications to the cleanup program. Pursuant to that schedule, the Company submitted its Comprehensive Proposal to Modify Cleanup Program (the “Proposal”) to the State on May 4, 2009. On June 15, 2009, the State refused to approve the Company’s Proposal. Pursuant to the Court-imposed schedule, the Company filed pleadings identifying areas of dispute and motions seeking approval of its Proposal on August 18, 2009. The MDEQ did not file any pleadings regarding the Company’s Proposal, but did file a motion to enforce the existing Consent Judgment that asks the Court to order the Company to undertake additional response activities with regard to certain portions of the site. The MDEQ’s motion does not seek monetary damages. The Court has not indicated the exact process by which it will resolve these disputes.

The State and the Company have met several times during fiscal year 2010 and in fiscal year 2011 in order to resolve the outstanding disputes. After almost two years of working with the MDEQ to revise the cleanup program, the Washtenaw County Circuit Court approved the third amendment to the Consent Judgment on March 8, 2011.

The reserve established at the end of fiscal year 2010 for the revised global remediation plan contemplated a start date of remediation under the new plan of January 1, 2011, which was then delayed until May 2011. During the fiscal year ended July 31, 2011, \$3,817,000 was added to the reserve to reflect the current assessment of the future costs of the final remediation plan. Based on the known situation, Company management has concluded that the current remediation reserve of \$10,692,000 at July 31, 2011 is appropriate.

### Pinellas Park, Florida:

In 1995, as part of a facility closure, an environmental site assessment was conducted to evaluate potential soil and groundwater impacts from chemicals that may have been used at the Company’s Pinellas Park facility during the previous 24-year period of manufacturing and testing operations. Methyl Isobutyl Ketone (“MIBK”) concentrations in groundwater were found to be higher than regulatory levels. Soil excavation was conducted in 1998 and subsequent groundwater sampling showed MIBK concentrations below the regulatory limits.

In October 2000, environmental consultants for a prospective buyer of the property found groundwater contamination at the Company’s property. In October 2001, a Site Assessment Report conducted by the Company’s consultants, which detailed contamination concentrations and distributions, was submitted to the Florida Department of Environmental Protection (“FDEP”).

In July 2002, a Supplemental Contamination Assessment Plan and an Interim Remedial Action Plan (“IRAP”) were prepared by the Company’s consultants and submitted to the FDEP. A revised IRAP was submitted by the Company in December 2003, and it was accepted by the FDEP in January 2004. A Remedial Action Plan (“RAP”) was submitted by the Company to the FDEP in June 2004. Final approval by the FDEP of the Company’s RAP was received by the Company on August 26, 2006. Pursuant to the approved RAP, the Company began active remediation on the property.

On March 31, 2006, the FDEP requested that the Company investigate potential off-site migration of contaminants. Off-site contamination was identified and the FDEP was notified. On April 13, 2007, the FDEP reclassified the previously approved RAP as an Interim Source Removal Plan (“ISRP”) because a RAP can only be submitted after all contamination is defined.



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Pursuant to FDEP requirements, the Company installed additional on-site and off-site monitoring wells during fiscal years 2006 through 2009. Additional monitoring wells were installed in fiscal year 2010 and monitoring results provided to the FDEP. Once the delineation has been declared complete by FDEP, the Company will complete and submit a Site Assessment Report (“SAR”) Addendum, summarizing the soil and groundwater contamination, delineation and remediation. The primary obstacle for finalizing the SAR is gaining agency agreement that delineation of contamination is complete. Additional delineation work was performed during fiscal year 2011 and additional investigation is scheduled to be performed in September 2011 and October 2011.

The path forward for site closure includes three primary components: (1) finalizing the SAR; targeted for early fiscal year 2012, (2) completing ISRP activities; activities are expected to continue throughout fiscal year 2012 to meet the FDEP source control requirements, and (3) preparing a RAP for agency approval; this task cannot be performed until FDEP approves the SAR. The RAP is expected to be completed early-mid fiscal year 2012.

The ongoing remediation at the site is scheduled to satisfy site closure requirements, which include (1) no free product contaminants, (2) shrinking or stable plumes, and (3) prevention of future exposure of the public or environment. The RAP is contemplated to include a remedy designated as Risk Management Option III (RMO III) which allows off site contamination to naturally attenuate to concentrations determined by FDEP to be safe to humans and the environment. The RMO III requires land use restrictions for those properties on which the natural attenuation process occurs. The FDEP has agreed with the RMO III closure approach. The Company has secured restrictive covenants for the three properties immediate, down gradient and continues negotiation of additional restrictive covenants with the owners of two additional down gradient properties. A local law firm is assisting Company management during negotiations with the owners of adjacent properties regarding the restrictive covenants.

Once the contamination has been delineated and active remediation has stopped, groundwater sampling and analysis must continue for at least the legislative minimum of one year. After groundwater sampling is complete, a closure application will be submitted to FDEP.

Glen Cove, New York:

A March 1994 report indicated groundwater contamination consisting of chlorinated solvents at a neighboring site to the Company’s Glen Cove facility, and later reports found groundwater contamination in both the shallow and intermediate zones at the facility. In 1999, the Company entered into an Order on Consent with the New York State Department of Environmental Conservation (“NYSDEC”), and completed a Phase II Remedial Investigation at the Glen Cove facility.

The NYSDEC has designated two operable units (“OUs”) associated with the Glen Cove facility. In March 2004, the NYSDEC finalized the Record of Decision (“ROD”) for the shallow and intermediate groundwater zones, termed OU-1. The Company signed an Order on Consent for OU-1 effective July 5, 2004, which requires the Company to prepare a Remedial Design/Remedial Action (“RD/RA”) Work Plan to address groundwater conditions at the Glen Cove facility.

The Company completed a pilot test involving the injection of a chemical oxidant into on-site groundwater and, on May 31, 2006, submitted a report to NYSDEC entitled “In-Situ Chemical Oxidation Phase II Pilot Test and Source Evaluation Report” (the “Report”). The Report contained data which demonstrated that (1) in general, the pilot test successfully reduced contaminant levels and (2) the hydraulic controls installed on the upgradient Photocircuits Corporation (“Photocircuits”) site are not effective and contaminated groundwater continues to migrate from that site. On July 31, 2006, the Company received comments from NYSDEC on the Report. On September 27, 2006, the Company submitted responses to the NYSDEC comments. On November 16, 2006, the Company met with the NYSDEC representatives to discuss the Report and the impact of the continued migration of contaminated groundwater from the upgradient Photocircuits site onto the Glen Cove facility. On January 26, 2007, the Company submitted a draft conceptual remedial design document for the Glen Cove facility to NYSDEC for its technical review.

The Company met with NYSDEC representatives on April 12, 2007 to discuss a possible settlement of liability for OU-1 and for the contamination in the deep groundwater zone, termed OU-2. NYSDEC would not agree to settle OU-2 because a remedial investigation has not been completed. After numerous settlement discussions, the Company and NYSDEC executed on September 23, 2009 a Consent Decree settling liability for OU-1. On October 23, 2009, the Consent Decree was entered by the clerk of the United States District Court for the Eastern District of New York and became effective. Pursuant to the Consent Decree, the Company paid on November 19, 2009 \$2,000,000 (which was previously accrued) in exchange for a broad release of OU-1 claims and liability. Claims and losses arising out of or in connection with OU-2 or any damages to the State’s natural resources are excluded from the settlement. The ROD for OU-2 has been deferred by NYSDEC until additional data is available to delineate contamination and select an appropriate remedy. NYSDEC requested that the Company and Photocircuits enter into a joint Order on Consent for the remedial investigation. Photocircuits was not willing to enter into an Order and the Company was informed by NYSDEC that it would undertake the OU-2 investigation at the Photocircuits property. Photocircuits filed for Chapter 11 bankruptcy in October 2005 and, in or about March 2006, the assets of Photocircuits’ Glen Cove facility were sold to American

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Pacific Financial Corporation ("AMPAC"). AMPAC operated the facility under the Photocircuits name, but closed it on or about April 15, 2007. A Final Decree and Order closing Photocircuits' Chapter 11 bankruptcy case was entered by the U.S. Bankruptcy Court on September 16, 2009 and no distributions were made to general unsecured creditors, which included the Company.



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In July 2007, NYSDEC commenced the OU-2 investigation at both the Photocircuits and Pall sites. The Company has retained an engineering consultant to oversee NYSDEC's OU-2 work. NYSDEC's OU-2 investigation is ongoing.

Effective August 14, 2010, the Company and the State entered into a Tolling Agreement pursuant to which the time between August 14, 2010 and January 31, 2012, or such date as the State files suit, will not be included when computing the statute of limitations applicable to the commencement of any action by the State in connection with claims and losses arising out of OU-2 or natural resource damages associated with OU-1 or OU-2.

In the opinion of Company management, the Company is in substantial compliance with applicable environmental laws and its accruals for environmental remediation are adequate at this time. Because regulatory standards under environmental laws are becoming increasingly stringent, there can be no assurance that future developments, additional information and experience gained will not cause the Company to incur material environmental liabilities or costs beyond those accrued in its consolidated financial statements.

ITEM 4. REMOVED AND RESERVED.

### PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is listed on the New York Stock Exchange under the symbol PLL. The table below sets forth quarterly data relating to the Company's common stock prices and cash dividends declared per share for the past two fiscal years.

Price per share		2011		2010		Cash Dividends Declared Per Share	
		High	Low	High	Low	2011	2010
Quarter:	First	\$ 44.65	\$ 33.72	\$ 34.54	\$ 28.69	\$ 0.160	\$ 0.145
	Second	55.47	42.40	37.85	31.06	0.175	0.160
	Third	59.50	52.35	41.82	33.21	0.175	0.160
	Fourth	58.83	49.49	39.99	31.84	0.175	0.160

As of September 22, 2011 there were approximately 2,980 holders of record of the Company's common stock. Dividends are paid when, as and if declared by the board of directors of the Company.

#### PERFORMANCE GRAPH

The following graph compares the annual change in the cumulative total return on the Company's common stock during the Company's last five fiscal years with the annual change in the cumulative total return of the Standard & Poor's Composite-500 Index and the Standard & Poor's Industrial Machinery Index (which includes the Company). The graph assumes an investment of \$100 on July 31, 2006 (the last trading day of the Company's fiscal year 2006) and the reinvestment of all dividends paid during the last five fiscal years.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*  
 Among Pall Corporation, the S&P 500 Index  
 and the S&P Industrial Machinery Index

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	31-Jul-06	31-Jul-07	31-Jul-08	31-Jul-09	30-Jul-10	29-Jul-11
Pall Corporation	\$100	\$161	\$159	\$120	\$156	\$205
S&P 500	\$100	\$116	\$103	\$83	\$94	\$113
S&P Industrial Machinery	\$100	\$129	\$118	\$91	\$119	\$144

The following table provides information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” of the Company’s common stock during the quarter ended July 31, 2011.

(In thousands, except per share data)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
May 1, 2011 to May 31, 2011	–	\$ –	–	\$ 288,420
June 1, 2011 to June 30, 2011	736	53.81	736	248,837
July 1, 2011 to July 31, 2011	846	54.13	846	203,037
<b>Total</b>	<b>1,582</b>	<b>\$ 53.98</b>	<b>1,582</b>	

- (1) On October 16, 2008, the board authorized an expenditure of \$350,000 to repurchase shares. The Company’s shares may be purchased over time, as market and business conditions warrant. There is no time restriction on this authorization. Total repurchases in fiscal year 2011 were 2,867 shares at an aggregate cost of \$149,907, with an average price per share of \$52.29. The aggregate cost of repurchases in fiscal years 2010 and 2009 was \$99,999 (2,720 shares at an average price per share of \$36.76) and \$96,439 (3,347 shares at an average price per share of \$28.81), respectively. As of July 31, 2011, \$203,037 remains to be expended under the current board repurchase authorizations. Repurchased shares are held in treasury for use in connection with the Company’s stock plans and for general corporate purposes.

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ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected financial data for the last five fiscal years. This selected financial data is not necessarily indicative of results of future operations and should be read in conjunction with Item 7. –Management’s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying consolidated financial statements and related notes included elsewhere in this Form 10-K.

(In millions, except per share data)	2011	2010	2009	2008	2007
<b>RESULTS FOR THE YEAR:</b>					
Net sales	\$ 2,740.9	\$ 2,401.9	\$ 2,329.2	\$ 2,571.6	\$ 2,249.9
Cost of sales	1,368.4	1,195.8	1,228.5	1,360.8	1,190.5
Gross profit	1,372.5	1,206.1	1,100.7	1,210.8	1,059.4
Selling, general and administrative expenses	813.5	739.9	699.9	749.5	675.0
Research and development	86.8	75.0	71.2	71.6	62.4
Restructuring and other charges, net	33.8	17.7	30.7	31.5	22.4
Interest expense, net (a)	18.9	14.3	28.1	32.6	39.1
Loss on extinguishment of debt (a)	–	31.5	–	–	–
Earnings before income taxes	419.5	327.7	270.8	325.6	260.5
Provision for income taxes	104.0	86.5	75.2	108.3	133.0(c)
Net earnings	\$ 315.5	\$ 241.2	\$ 195.6	\$ 217.3	\$ 127.5
Earnings per share:					
Basic	\$ 2.71	\$ 2.05	\$ 1.65	\$ 1.77	\$ 1.04
Diluted	\$ 2.67	\$ 2.03	\$ 1.64	\$ 1.76	\$ 1.02
Dividends declared per share	\$ 0.685	\$ 0.625	\$ 0.565	\$ 0.62	\$ 0.35
Capital expenditures	\$ 160.8	\$ 136.3	\$ 133.0	\$ 123.9	\$ 97.8
Depreciation and amortization of long-lived assets	\$ 98.1	\$ 93.6	\$ 89.4	\$ 93.2	\$ 94.0
<b>YEAR-END POSITION:</b>					
Working capital	\$ 1,019.2	\$ 1,065.6	\$ 853.1	\$ 1,085.7(b)	\$ 774.2
Property, plant and equipment	794.6	706.4	681.7	663.0	607.9
Total assets	3,232.4	2,999.2	2,840.8	2,956.7	2,708.8
Long-term debt, net of current portion	492.0	741.4	577.7	747.1	591.6
Total liabilities	1,742.6	1,816.9	1,726.2	1,817.5	1,648.2
Stockholders’ equity	1,489.8	1,182.3	1,114.6	1,139.2	1,060.6

- a) Refer to Note 8, Notes Payable and Long-term Debt, to the accompanying consolidated financial statements.
- b) Non-cash working capital at July 31, 2008 has been impacted by the adoption of accounting guidance issued by the Financial Accounting Standards Board (“FASB”), regarding accounting for uncertainty in income taxes. Consistent with the provisions of this guidance, the Company has reclassified certain tax related assets and liabilities from current to non-current. Such reclassifications had the effect of increasing non-cash working capital at July 31, 2008 by approximately \$137.0.
- c) Provision for income taxes in fiscal year 2007 includes a charge of \$40.0 for the net tax cost of the repatriation of approximately \$160.0 of foreign earnings and a change in estimate in fiscal year 2007 of certain income tax reserves.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements and Risk Factors

The following discussion should be read together with the accompanying consolidated financial statements and notes thereto and other financial information in this Form 10-K. The discussion under the subheading "Review of Operating Segments" below is in local currency (i.e., had exchange rates not changed year over year) unless otherwise indicated. Company management considers local currency change to be an important measure because by excluding the impact of volatility of exchange rates, underlying volume change is clearer. Dollar amounts discussed below are in thousands, unless otherwise indicated, except per share dollar amounts. In addition, per share dollar amounts are discussed on a diluted basis. The Company utilizes certain estimates and assumptions that affect the reported financial information as well as to quantify the impact of various significant factors that contribute to the changes in the Company's periodic results included in the discussion below.

The matters discussed in this Annual Report on Form 10-K contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that address activities, events or developments that the Company or management intends, expects, projects, believes or anticipates will or may occur in the future. All statements regarding future performance, earnings projections, earnings guidance, management's expectations about its future cash needs and effective tax rate, and other future events or developments are forward-looking statements. Forward-looking statements contained in this and other written and oral reports are based on management's assumptions and assessments in light of past experience and trends, current conditions, expected future developments and other relevant factors. They are subject to risks and uncertainties and are not guarantees of future performance, and actual results, developments and business decisions may differ materially from those envisaged by the Company's forward-looking statements. Such risks and uncertainties include, but are not limited to, those discussed in Part I—Item 1A.—Risk Factors in this Form 10-K. The Company makes these statements as of the date of this disclosure and undertakes no obligation to update them, whether as a result of new information, future developments or otherwise.

Critical Accounting Policies and Estimates

The Company's accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These accounting principles require the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accompanying consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Although these estimates are based on Company management's knowledge of current events and actions it may undertake in the future, actual results may differ from estimates. The following discussion addresses the Company's critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results, and that require judgment. See also the notes to the accompanying consolidated financial statements, which contain additional information regarding the Company's accounting policies.

Income Taxes

Significant judgment is required in determining the worldwide provision for income taxes. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and cost reimbursement arrangements among related entities, the process of identifying items of revenue and expense that qualify for preferential tax treatment and appropriate segregation of foreign and domestic income and expense to avoid double taxation. No assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in the Company's historical income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net earnings in the period in which a final determination is made.

The Company records a valuation allowance to reduce deferred tax assets to the amount of the future tax benefit that is more likely than not to be realized. While Company management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance would not need to be increased to cover additional deferred tax assets that may not be realizable. Any increase in the valuation allowance could have a material adverse impact on the Company's income tax provision and net earnings in the period in which such determination is made.

## Purchase Accounting and Goodwill

Determining the fair value of assets acquired and liabilities assumed in a business combination is judgmental in nature and often involves the use of significant estimates and assumptions. There are various methods used to estimate the value of tangible and intangible assets acquired, such as discounted cash flow and market multiple approaches. Some of the more significant estimates and assumptions inherent in the two approaches include: projected future cash flows (including timing); discount rates reflecting the risk inherent in the future cash flows; perpetual growth rate; determination of appropriate market comparables; and the determination of whether a premium or a discount should be applied to comparables. There are also judgments made to determine the expected useful lives assigned to each class of assets acquired and liabilities assumed.

The Company performs impairment testing for goodwill at least annually during the Company's fiscal third quarter, or more frequently if certain events or circumstances indicate impairment might have occurred. The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. The Company's two reportable operating segments, Life Sciences and Industrial, are also deemed to be its reporting units for purposes of testing goodwill for impairment. In the first step, the overall fair value for the reporting unit is compared to its book value including goodwill. In the event that the overall fair value of the reporting unit was determined to be less than the book value, a second step is performed which compares the implied fair value of the reporting unit's goodwill to the book value of the goodwill. The implied fair value for the goodwill is determined based on the difference between the overall fair value of the reporting unit and the fair value of the net identifiable assets. If the implied fair value of the goodwill is less than its book value, the difference is recognized as an impairment loss.

The Company completed its annual goodwill impairment tests as of March 1, 2011 and March 1, 2010. The estimated fair values of both the Life Sciences and Industrial reporting units substantially exceeded the carrying values of these reporting units, and as such, step two was not performed.

When testing for impairment, the Company uses significant estimates and assumptions to estimate the fair values of its reporting units. Fair value of the Company's reporting units is determined using market multiples (derived from trailing-twelve-month revenue, earnings before interest and taxes ("EBIT") and earnings before interest, taxes, depreciation and amortization ("EBITDA")), of publicly traded companies with similar operating and investment characteristics as the Company's reporting units. These various market multiples are applied to the operating performance of the reporting unit being tested to determine a range of fair values for the reporting unit. The fair value of the reporting units is then determined using the average of the fair values derived from the minimum and median market multiples.

The minimum and median market multiples used in the fiscal year 2011 impairment testing ranged from 1.4 to 2.6 times revenue, 7.0 to 14.8 times EBIT and 6.5 to 10.6 times EBITDA. The minimum and median market multiples used in the fiscal year 2010 impairment testing ranged from 0.9 to 3.3 times revenue, 12.6 to 19.7 times EBIT and 9.1 to 11.8 times EBITDA. To further substantiate the reasonableness of the fair value of its reporting units, the Company compares enterprise value (outstanding shares multiplied by the closing market price per share, plus debt, less cash and cash equivalents) to the aggregate fair value of its reporting units.

## Revenue Recognition

Revenue is recognized when title and risk of loss have transferred to the customer and when contractual terms have been fulfilled, except for certain long-term contracts, whereby revenue is recognized under the percentage of completion method (see below). Transfer of title and risk of loss occurs when the product is delivered in accordance with the contractual shipping terms. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) the Company has previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) upon formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

For contracts accounted for under the percentage of completion method, revenue recognition is based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses.

#### Allowance for Doubtful Accounts

Company management evaluates its ability to collect outstanding receivables and provide allowances when collection becomes doubtful. In performing this evaluation, significant estimates are involved, including an analysis of specific risks on a customer-by-customer basis. Based upon this information, Company management records in earnings an amount believed to be uncollectible. If the factors used to estimate the allowance provided for doubtful accounts do not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

#### Inventories

Inventories are valued at the lower of cost (principally on the first-in, first-out method) or market. The Company records adjustments to the carrying value of inventory based upon assumptions about historic usage, future demand and market conditions. These adjustments are estimates which could vary significantly, either favorably or unfavorably, from actual requirements if future conditions, customer inventory levels or competitive conditions differ from the Company's expectations.

#### Recoverability of Available-for-Sale Investments

Other than temporary losses relating to available-for-sale investments are recognized in earnings when Company management determines that the recoverability of the cost of the investment is unlikely. Such losses could result in a material adjustment in the period of the change. Company management considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other than temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the investment; and (iii) whether Company management intends to retain the investment for a period of time that is sufficient to allow for any anticipated recovery in market value.

#### Defined Benefit Retirement Plans

The Company sponsors defined benefit retirement plans in various forms covering substantially all employees who meet eligibility requirements. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liabilities related to those plans for which the benefit is actuarially determined. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company, within certain guidelines. In addition, the Company's actuarial consultants also use subjective factors, such as withdrawal and mortality rates, to calculate the liabilities and expense. The actuarial assumptions used by the Company are long-term assumptions and may differ materially from actual experience in the short-term due to changing market and economic conditions and changing participant demographics. These differences may have a significant effect on the amount of pension expense and pension assets/ (liabilities) recorded by the Company.

Pension expense associated with the Company's defined benefit plans was \$37,133 in fiscal year 2011, which was based on a weighted average discount rate of 5.10% (calculated using the projected benefit obligation) and a weighted average expected long-term rate of return on plan assets of 6.13% (calculated using the fair value of plan assets).

The expected rates of return on the various defined benefit pension plans' assets are based on the asset allocation of each plan and the long-term projected return of those assets. If the expected long-term rate of return on plan assets was reduced by 50 basis points, pension expense in fiscal year 2011 would have increased approximately \$1,900.

The objective of the discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. The Company's methodology for selecting the discount rate for the U.S. plans as of July 31, 2011 was to match the plan's cash flows to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. This is under the premise that cash flows for benefits due in a particular year can be theoretically "settled" by "investing" them in the zero-coupon bond that matures in the same year. The discount rate is the single rate that produces the same present value of cash flows. The discount rate assumption for non-U.S. plans reflects the market rate for high-quality, fixed-income debt instruments. Both discount rate assumptions are based on the expected duration of benefit payments for each of the Company's pension plans as of the annual measurement date and is subject to change each year. If the weighted average discount rate was reduced by 50 basis points, pension expense in fiscal year 2011 would have increased by approximately \$2,700.



## Accrued Expenses and Contingencies

Company management estimates certain material expenses in an effort to record those expenses in the period incurred. When no estimate in a given range is deemed to be better than any other, the low end of the range is accrued. Differences between estimates and assumptions and actual results could result in an accrual requirement materially different from the calculated accrual.

Environmental accruals are recorded based upon historical costs incurred and estimates for future costs of remediation and on going legal expenses which have a high degree of uncertainty.

Self-insured workers' compensation insurance accruals are recorded based on insurance claims processed, including applied loss development factors as well as historical claims experience for claims incurred but not yet reported. Self-insured employee medical insurance accruals are recorded based on medical claims processed as well as historical medical claims experience for claims incurred but not yet reported.

## Results of Operations 2011 Compared with 2010

### Review of Consolidated Results

Sales in fiscal year 2011 increased 14.1% to \$2.7 billion from \$2.4 billion in fiscal year 2010. Exchange rates used to translate foreign subsidiary results into U.S. Dollars increased reported sales by \$76,328, primarily due to the weakening of the U.S. Dollar against various Asian currencies (the Japanese Yen ("JPY"), Australian Dollar, Chinese Renminbi and Singapore Dollar) and European currencies (the Swiss Franc, Euro and British Pound). In local currency, sales increased 10.9%. Increased pricing contributed \$14,122 to overall sales in the year, primarily attributable to an improvement in Life Sciences.

Life Sciences segment sales increased 11.0% (in local currency) reflecting growth in all three of its markets, with sales in the BioPharmaceuticals market particularly strong. Industrial segment sales increased 10.9% (in local currency) reflecting strong growth in all three of its markets. Overall consumable filtration products and appurtenant hardware sales increased 9.6% (in local currency) reflecting growth of over 9% in both Life Sciences and Industrial. Overall systems sales increased 21.7% (in local currency) reflecting double-digit growth in both the Life Sciences and Industrial segments. Systems sales represented 12.5% of total sales in fiscal year 2011 compared to 11.3% in fiscal year 2010. For a detailed discussion of sales, refer to the section "Review of Operating Segments" below.

Gross margin in fiscal year 2011 decreased slightly to 50.1% from 50.2% in fiscal year 2010. This reflects a decrease in gross margin in the Industrial segment of 40 basis points partly offset by a slight improvement in the Life Sciences segment of 10 basis points. For a detailed discussion of the factors impacting gross margin by segment, refer to the section "Review of Operating Segments" below.

Selling, general and administrative ("SG&A") expenses in fiscal year 2011 increased by \$73,510, or 9.9% (an increase of \$54,256, or 7.3%, in local currency). This increase is reflected in both segments and the Corporate Services Group. Selling expenses in local currency increased approximately 10%, while general and administrative ("G&A") expenses increased about 4.5%. In addition to inflationary increases in payroll and related costs affecting both selling and G&A expenses, the overall increase in SG&A (in local currency) primarily reflects:

- increased spending on sales and marketing in three key areas:
  - Ø geographic expansion in Latin America, Middle East and Asia, principally impacting Industrial and to a lesser extent, Life Sciences, and costs incurred for changes in sales channels from distribution to direct, primarily impacting Life Sciences,
  - Ø variable compensation costs reflecting increases in commissionable systems sales and the strength of each segment's performance, and
  - Ø marketing and advertising costs, impacting both segments
    - investments in information technology, impacting both segments,
    - costs related to the establishment of the European headquarters in Switzerland, impacting both Life Sciences and Industrial, and the Asian headquarters in Singapore, primarily impacting Industrial,
    - incremental costs related to a biotechnology company that was acquired late in the second quarter of fiscal year 2010, and



- performance related compensation costs as well as certain governance related costs, impacting the Corporate Services Group.

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As a percentage of sales, SG&A expenses were 29.7% compared to 30.8% in fiscal year 2010. The decline in SG&A expenses as a percentage of sales reflects the leverage of an increasing sales base combined with control of G&A spending, partly offset by the increase in spending in key areas as discussed above. As a percentage of sales, G&A expenses were 12.5% compared to 13.5% in fiscal year 2010. For a detailed discussion of SG&A by business, refer to the section "Review of Operating Segments" below.

Research and development ("R&D") expenses were \$86,805 in fiscal year 2011 compared to \$74,944 in fiscal year 2010, an increase of \$11,861, or 15.8% (\$11,378, or 15.2% in local currency). The increase in R&D expenses reflects increased spending in both segments. As a percentage of sales, R&D expenses were 3.2% compared to 3.1% in fiscal year 2010. For a detailed discussion of R&D by business, refer to the section "Review of Operating Segments" below.

In fiscal year 2011, the Company recorded restructuring and other charges ("ROTC") of \$33,841 primarily comprised of severance, an asset impairment charge, professional fees and other costs related to the Company's cost reduction initiatives. Furthermore, ROTC includes costs related to certain employment contract obligations and an increase to previously established environmental reserves. These costs were partly offset by the receipt of insurance claim payments. The severance costs and asset impairment charges recorded in fiscal year 2011 relate to the planned closure of certain manufacturing activities.

In fiscal year 2010, the Company recorded ROTC of \$17,664. This was primarily comprised of severance, professional fees and other costs related to the Company's on-going cost reduction initiatives and an increase to previously established environmental reserves. These costs were also partly offset by the receipt of insurance claim payments.

The details of ROTC for the years ended July 31, 2011 and July 31, 2010 as well as the activity related to restructuring liabilities that were recorded in those years can be found in Note 2, Restructuring and Other Charges, Net, to the accompanying consolidated financial statements.

Earnings before interest and income taxes ("EBIT") were \$438,425 in fiscal year 2011, an increase of 28.2% compared to \$342,045 in fiscal year 2010. The impact of foreign currency translation increased EBIT by approximately \$21,920, or 6.4% in fiscal year 2011. As a percentage of sales, EBIT were 16.0% compared to 14.2% in fiscal year 2010.

Net interest expense in fiscal year 2011 was \$18,903 compared to \$14,324 in fiscal year 2010. Net interest expense in fiscal year 2011 reflects the net reversal of \$6,184 of accrued interest primarily related to the resolution of U.S. tax audits, partially offset by an interest accrual related to foreign tax matters. Net interest expense in fiscal year 2010 reflects the reversal of \$11,780 of accrued interest primarily related to the resolution of foreign tax audits and expiring statutes of limitation for assessment related to uncertain tax positions. Excluding these items, net interest expense decreased \$1,017 compared to fiscal year 2010.

The effective tax rate for fiscal year 2011 was 24.8% as compared to 26.4% for fiscal year 2010. The effective tax rate for fiscal year 2011 reflects a tax benefit from the resolution of a U.S. tax audit partly offset by tax costs associated with the repatriation of foreign earnings and the establishment of the Company's Asian headquarters in Singapore. The effective tax rate for fiscal year 2010 reflects tax benefits from the resolution of foreign tax audits and expiring foreign statutes of limitation for assessment related to uncertain tax positions partly offset by a tax charge primarily related to tax costs associated with the establishment of the Company's European headquarters. Excluding these items, the impacts of ROTC discussed above and debt extinguishment costs discussed below, the effective tax rate for fiscal year 2011 and 2010 would have been 26.7% and 31.0%, respectively. This decrease reflects tax benefits associated with the establishment of the Company's European headquarters.

In May 2011, the Internal Revenue Service ("IRS") concluded its audits of fiscal years 1999 through 2005, including the matter previously disclosed for those years in Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K. In closing the audit, the IRS did not assess any penalties. As a result, the Company reversed \$22,829 of previously recorded liabilities related to tax and penalties that were accrued but not assessed. Additionally, the Company will not make any further cash payments to the IRS or receive any refunds with respect to these matters.

Net earnings in fiscal year 2011 were \$315,496, or \$2.67 per share, compared with net earnings of \$241,248, or \$2.03 in fiscal year 2010. Company management estimates that foreign currency translation increased earnings per share by 13 cents in fiscal year 2011.

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Review of Operating Segments

The following table presents sales and segment profit by business segment, reconciled to earnings before income taxes, for the fiscal years ended July 31, 2011 and July 31, 2010.

	2011	% Margin	2010	% Margin	% Change
<b>SALES:</b>					
Life Sciences	\$ 1,407,863		\$ 1,237,835		13.7
Industrial	1,333,053		1,164,097		14.5
Total	\$ 2,740,916		\$ 2,401,932		14.1
<b>SEGMENT PROFIT:</b>					
Life Sciences	\$ 337,600	24.0	\$ 280,089	22.6	20.5
Industrial	195,791	14.7	164,544	14.1	19.0
Total segment profit	533,391	19.5	444,633	18.5	20.0
Corporate Services Group	61,125		53,411		14.4
Operating Profit	472,266	17.2	391,222	16.3	20.7
ROTC, net	33,841		17,664		
Interest expense, net	18,903		14,324		
Loss on extinguishment of debt	--		31,513		
Earnings before income taxes	\$ 419,522		\$ 327,721		

Life Sciences:

Presented below are Summary Statements of Segment Profit for the Life Sciences segment for the fiscal years ended July 31, 2011 and July 31, 2010:

	2011	% of Sales	2010	% of Sales	% Change
Sales	\$ 1,407,863		\$ 1,237,835		13.7
Cost of sales	646,502	45.9	569,097	46.0	13.6
Gross margin	761,361	54.1	668,738	54.0	13.9
SG&A	368,408	26.2	340,628	27.5	8.2
R&D	55,353	3.9	48,021	3.9	15.3
Segment profit	\$ 337,600	24.0	\$ 280,089	22.6	20.5

The tables below present sales by market and geography within the Life Sciences segment for the fiscal years ended July 31, 2011 and July 31, 2010, including the effect of exchange rates for comparative purposes.

	2011	2010	% Change	Exchange Rate Impact	% Change in Local Currency
<b>By Market</b>					
BioPharmaceuticals	\$ 738,010	\$ 620,279	19.0	\$ 20,688	15.6
Medical	424,268	399,507	6.2	6,929	4.5
Food & Beverage	245,585	218,049	12.6	6,556	9.6
Total Life Sciences	\$ 1,407,863	\$ 1,237,835	13.7	\$ 34,173	11.0

**By Geography**

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Western Hemisphere	\$ 482,619	\$ 430,285	12.2	\$ 1,045	11.9
Europe	665,093	595,719	11.6	14,177	9.3
Asia	260,151	211,831	22.8	18,951	13.9
Total Life Sciences	\$ 1,407,863	\$ 1,237,835	13.7	\$ 34,173	11.0

Life Sciences segment sales increased 11.0% in fiscal year 2011 compared to fiscal year 2010. The increase in sales reflects growth in consumables and systems sales of 9.9% and 26.0%, respectively.

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Increased pricing (primarily in the BioPharmaceuticals market) contributed \$10,980, or about 1%, to consumables sales growth in the year and the volume related consumables sales increase was about 8.9%. Systems sales represented 7.9% of total Life Sciences sales in fiscal year 2011 compared to 6.9% in fiscal year 2010. Life Sciences sales represented approximately 51% of total Company sales compared to 52%, in fiscal year 2010.

Sales in the BioPharmaceuticals market, which is comprised of two submarket groupings (Pharmaceuticals and Laboratory), and represented about 52% of total Life Sciences sales, increased 15.6%. The sales results by the submarkets that comprise BioPharmaceuticals are discussed below:

- Sales in the Pharmaceuticals submarket, which represented about 45% of total Life Sciences sales, increased 16.3% compared to fiscal year 2010. Consumables sales increased 15.2%, while systems sales grew 27.4%. All three geographies reported double-digit sales growth compared to fiscal year 2010. The sales results in all geographies reflect overall growth in the marketplace as pharmaceutical manufacturers introduce new drugs and increase production levels. The biologicals drug market is strong, particularly in the biotech, vaccine and plasma sectors. Increased demand for the Company's single-use products also contributed to the growth in the year. In addition to the above factors, the Western Hemisphere also benefited from a change in route to market from distributor sales to direct. The sales results in Asia also reflects growth in emerging markets (China and India) and strong sales growth in Korea, Singapore (as customer factories built in the last two years ramp up production) and Japan. Sales growth in Asia has also been favorably impacted, as drug producers in China move towards adopting Federal Drug Administration manufacturing standards to facilitate exporting their products to the U.S. and Europe.
- Sales in the Laboratory submarket, which represented less than 10% of Life Sciences sales, grew 12.2%, with all geographies contributing. The growth in this submarket was driven by increased end-user demand fueled by underlying growth in the pharmaceutical marketplace. Emerging markets in Asia, particularly China and India, also contributed to the growth year over year.

Sales in the Medical market, which is comprised of blood filtration product sales and other infection and patient protection products sold to hospitals, original equipment manufacturers ("OEM") and cell therapy developers, and represented about 30% of total Life Sciences sales, increased 4.5% in fiscal year 2011 compared to fiscal year 2010.

- Sales of blood filtration products, which represented approximately 17% of total Life Sciences sales, increased 2.2% reflecting increased sales in the Western Hemisphere, the Company's largest blood filtration region, as well as growth in Europe. The growth in blood filtration sales in the Western Hemisphere was driven by the U.S. and was achieved despite a drop in blood collections, reflecting new product conversions at certain customers and increased sales to independent blood centers. The growth in Europe was primarily driven by the award of a new blood center tender in the U.K. as well as increases in Germany and Spain, partly offset by the impact of pricing pressure in parts of the region which caused the Company to rationalize some blood filtration business.
- OEM sales, which represented less than 10% of total Life Sciences sales, grew 10.0% primarily driven by increased IV filter sales in the Western Hemisphere (in the U.S.) and Europe. Regulatory requirements in the U.S. are driving an increase in intravenous filter ("IV") sales in the Western Hemisphere, while growth in Europe primarily reflects increased sales in U.K., Germany and France fueled by increased end-user demand.
- Sales to Hospitals, which represented less than 10% of total Life Sciences sales, increased 5.2%, with all geographies contributing. The growth year over year primarily reflects an increase in Pall-Aquasafe™ water filter sales in the Western Hemisphere and Europe. The growth in Europe principally reflects a large one-time sale to a hospital partly offset by the impact of competitive pricing pressure in the region.

Sales in the Food & Beverage market, which represented about 18% of total Life Sciences sales, increased 9.6% reflecting growth in all three geographies. Consumables sales increased 6.1%, while systems sales increased 24.3%. The overall sales increase in the year was primarily driven by improved market conditions, new market applications and products in food contact compliance and beer stabilization as well as growth in emerging markets in Asia (primarily China and India) as well as in various countries in Eastern Europe.

Life Sciences gross margin in fiscal year 2011 increased 10 basis points to 54.1% from 54.0% in fiscal year 2010. The increase in gross margin in the year reflects the following factors:

- unfavorable absorption of manufacturing overhead as inventory levels were adjusted and certain inventory-related charges, which in the aggregate reduced gross margin by an estimated 110-130 basis points,

- cost savings, which outpaced inflation, and the benefit of exchange rates on foreign currency denominated sourced goods primarily in the Euro-zone, increased gross margin by an estimated 90-110 basis points, and
- favorable pricing, which increased gross margin by an estimated 20-40 basis points.

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SG&A expenses in fiscal year 2011, increased by \$27,780, or 8.2% (an increase of \$19,758, or 5.8% in local currency) compared to fiscal year 2010. Selling expenses in local currency increased close to 10%, while G&A expenses were up slightly. In addition to inflation in payroll costs that impacted both selling and G&A expenses, the increase in SG&A (in local currency) principally reflects increased spending on sales and marketing, investments in information technology, costs related to the establishment of the European headquarters and incremental costs related to a biotechnology company acquired in fiscal year 2010, as discussed in the Review of Consolidated Results above. SG&A as a percentage of sales decreased to 26.2% from 27.5% in fiscal year 2010. The decrease in SG&A as a percentage of sales reflects the leverage of the increase in sales combined with control of G&A spending, partly offset by the increase in spending in key areas as discussed above. As a percentage of sales, G&A expenses were 10.0% compared to 11.1% in fiscal year 2010.

R&D expenses in fiscal year 2011 were \$55,353 compared to \$48,021 in fiscal year 2010, an increase of \$7,332, or 15.3% (\$6,972, or 14.5% in local currency). The increase in R&D expenses reflects increased headcount as well as expenses to support projects in the Medical and BioPharmaceuticals markets. As a percentage of sales, R&D expenses were 3.9%, on par with fiscal year 2010.

Segment profit dollars were \$337,600, an increase of \$57,511, or 20.5% (\$44,867, or 16.0% in local currency) compared to fiscal year 2010. Segment margin improved to 24.0% from 22.6% in fiscal year 2010.

### Industrial:

Presented below are summary Statements of Segment Profit for the Industrial segment for the fiscal years ended July 31, 2011 and July 31, 2010:

		% of		% of		%
		2011	Sales	2010	Sales	Change
Sales	\$	1,333,053		\$	1,164,097	14.5
Cost of sales		721,897	54.2	626,733	53.8	15.2
Gross margin		611,156	45.8	537,364	46.2	13.7
SG&A		383,913	28.8	345,897	29.7	11.0
R&D		31,452	2.4	26,923	2.3	16.8
Segment profit	\$	195,791	14.7	\$	164,544	19.0

The tables below present sales by market and geography within the Industrial segment for the fiscal years ended July 31, 2011 and July 31, 2010, including the effect of exchange rates for comparative purposes.

			%	Exchange	%	Change in		
	2011	2010	Change	Rate	Impact	Local		
						Currency		
<b>By Market</b>								
Energy & Water	\$	537,307	\$	479,866	12.0	\$	15,924	8.7
Aeropower		474,972		418,203	13.6		9,450	11.3
Microelectronics		320,774		266,028	20.6		16,781	14.3
Total Industrial	\$	1,333,053	\$	1,164,097	14.5	\$	42,155	10.9
<b>By Geography</b>								
Western Hemisphere	\$	434,490	\$	359,076	21.0	\$	1,737	20.5
Europe		389,982		350,233	11.3		6,783	9.4
Asia		508,581		454,788	11.8		33,635	4.4
Total Industrial	\$	1,333,053	\$	1,164,097	14.5	\$	42,155	10.9

Industrial segment sales increased 10.9%, with all markets contributing. The increase in sales in the year reflects growth in consumables and systems sales of 9.2% and 19.7%, respectively.





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Increased pricing contributed \$3,142, or less than 0.5%, to consumables sales growth in the year. Systems sales represented 17.3% of total Industrial sales in fiscal year 2011 compared to 16.0% in fiscal year 2010. Industrial sales represented approximately 49% of total Company sales in fiscal year 2011 compared to 48% in fiscal year 2010.

Sales in the Energy & Water market, which is comprised of three submarkets; Fuels & Chemicals, Municipal Water, and Power Generation, and represented about 40% of total Industrial sales, increased 8.7%. The sales results by submarket are discussed below:

- Sales in the Fuels & Chemicals submarket, which represented approximately 20% of total Industrial sales, increased 8.3% reflecting increases in the Western Hemisphere and Europe, partly offset by a decline in Asia. Consumables sales increased 7.9%, while systems sales grew 9.8%. The growth in the Western Hemisphere and Europe was driven by robust activity in the oil and gas sector and continued recovery in the chemical sector. Europe also benefited from growth in emerging markets in the Middle East. The decline in Asia primarily reflects a low level of investment activity in fiscal year 2010 that affected systems sales growth in the current year as well as weakness in the electronics-grade chemical marketplace.
- Sales in the Power Generation submarket, which represented approximately 10% of total Industrial sales, increased 9.8%. The growth was driven by Asia (mainly China), reflecting strong demand in the wind-turbine market and the Western Hemisphere, primarily driven by sales of water treatment and condensate systems to power stations in the U.S. A decrease in sales in Europe, related to overall weakness in the marketplace, particularly in the turbine OEM and fossil sectors, partly offset the above.
- Municipal Water submarket sales, which represented approximately 10% of total Industrial sales, increased 8.3%. By geography, sales in the Western Hemisphere (the Company's largest Municipal Water region) grew 22.5%, driven by municipalities in the U.S. upgrading to membrane filtration to comply with environmental regulations. Sales in Europe increased 2.4%. Growth in Europe was hampered by a reduction in publicly funded projects (primarily in the leachate sector) due to the fiscal challenges of local governments. In Asia, the Company's smallest Municipal Water region, sales were down about 40% related to timing of large systems projects.

The Aeropower market is comprised of sales of air, water, lubrication, fuel and machinery and hydraulic protection products to OEM and end-user customers in Military and Commercial Aerospace as well as in the Machinery & Equipment submarkets, which consist of a grouping of producers of mobile equipment and trucks, pulp and paper, mining equipment, automotive products and metals. Sales in the Aeropower market which represented about 36% of total Industrial sales, increased 11.3%. The sales results by the submarkets that comprise Aeropower are discussed below:

- Sales in the Machinery & Equipment submarket, which represented approximately 20% of total Industrial sales, increased 16.9%, with all geographies contributing to the growth. The increase in Machinery & Equipment sales was driven by growth in the mining and primary metals sectors as well as an increase in OEM in-plant activities related to an increase in demand for manufacturing capacity. Furthermore, the Western Hemisphere and Europe benefited from an increase in sales to mobile OEM customers (construction and mining) as they increased build rates to meet demand.
- Sales to the Military Aerospace submarket, which represented less than 10% of total Industrial sales, decreased 2.6% primarily reflecting the impact of spending cutbacks by European governments. This was partly offset by an increase in the Western Hemisphere reflecting increased shipments of spares to the U.S. government.
- Sales to the Commercial Aerospace submarket, which represented less than 10% of total Industrial sales, increased 14.5%, with all geographies contributing to the growth. The growth in Commercial Aerospace sales was primarily driven by a modest increase in OEM production rates, an increase in aftermarket sales related to

an increase in air miles flown and modest improvement in the business jet market.

Microelectronics sales, which represented about 24% of total Industrial sales, increased 14.3% reflecting double-digit growth in all geographies. Growth was particularly strong in the first half of fiscal year 2011, with modest growth seen in the second half of the year. Overall, the sales growth reflects strength in the semiconductor marketplace. OEM activity was also strong globally, although some slowing was seen in the latter part of the year. Growth in the display marketplace in Asia also positively impacted revenue growth year over year, particularly in the first-half with slowing seen later in the year. Increased demand for consumer electronics, including tablets and smart phones, continue to positively impact sales growth in this market.

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Industrial gross margin decreased 40 basis points to 45.8% from 46.2% in fiscal year 2010. The decrease in gross margin reflects the impact of unfavorable mix which reduced gross margin by an estimated 170-190 basis points comprised of the following:

- Ø a negative impact from an increase in systems sales, as discussed above, which typically have lower gross margins than consumables, and
- Ø a negative impact from the consumables market mix, primarily in the Aeropower market and Power Generation and Fuels & Chemicals submarkets comprised of lower margin capital goods, such as hardware and other appurtenant devices to the filtration consumable product.

This was partly offset by the impact of cost savings, including improved efficiency in manufacturing operations, which outpaced inflation, that in the aggregate increased gross margin by an estimated 130-150 basis points.

SG&A expenses increased by \$38,016, or 11.0% (an increase of \$26,740, or 7.7% in local currency) compared to fiscal year 2010. Selling expenses in local currency increased close to 14%, while G&A expenses were flat. In addition to inflation in payroll costs, the increase in SG&A (in local currency) principally reflects increased spending on sales and marketing, investments in information technology and costs related to the establishment of the European and Asian headquarters as discussed in the Review of Consolidated Results. SG&A expenses as a percentage of sales decreased to 28.8% from 29.7% in fiscal year 2010. The decrease in SG&A as a percentage of sales reflects the leverage of the increase in sales combined with control of G&A spending, partly offset by the increase in spending in key areas as discussed above. As a percentage of sales, G&A expenses were 10.9% compared to 12.2% in fiscal year 2010.

R&D expenses were \$31,452 in fiscal year 2011 compared to \$26,923 in fiscal year 2010, an increase of \$4,529, or 16.8% (\$4,406, or 16.4% in local currency). As a percentage of sales, R&D expenses were 2.4% compared to 2.3% in fiscal year 2010.

Segment profit dollars in fiscal year 2011 were \$195,791, an increase of \$31,247, or 19.0% (\$21,877, or 13.3% in local currency) compared to fiscal year 2010. Segment margin increased to 14.7% from 14.1% in fiscal year 2010.

### Corporate Services Group:

Corporate Service Group expenses in fiscal year 2011 were \$61,125 compared to \$53,411 in fiscal year 2010, an increase of \$7,714 or 14.4% (\$7,759, or 14.5% in local currency). The increase in Corporate Service Group expenses primarily reflects increases in performance related compensation costs, professional fees for certain governance related matters and payroll and related costs.

### Results of Operations 2010 Compared with 2009

#### Review of Consolidated Results

Sales in fiscal year 2010 increased 3.1% to \$2.4 billion from \$2.3 billion in fiscal year 2009. Exchange rates used to translate foreign subsidiary results into U.S. Dollars increased reported sales by \$58,289, primarily due to the weakening of the U.S. Dollar against the Japanese Yen ("JPY"), Australian Dollar, Euro, Korean Won, and Canadian Dollar. In local currency, sales increased 0.6%. Increased pricing contributed \$12,449 to overall sales in the year, attributable to an improvement in the Life Sciences segment partly offset by a decline in Industrial.

Life Sciences segment sales increased 4.1% (in local currency) in fiscal year 2010, reflecting double-digit growth in the BioPharmaceuticals market partly offset by a decline in the Food & Beverage market. Sales in the Medical market were up slightly year over year. Industrial segment sales decreased 2.8% (in local currency), reflecting declines in the Energy & Water and Aeropower markets partly offset by strong growth in the Microelectronics market. Overall consumable filtration products and appurtenant hardware sales increased 3.0% (in local currency) reflecting growth in Life Sciences partly offset by a slight decline in Industrial. Overall systems sales decreased 15.0% (in local currency), reflecting decreases in both Life Sciences and Industrial. Systems sales represented 11.3% of total sales in fiscal year 2010 compared to 13.4% in fiscal year 2009. For a detailed discussion of sales, refer to the section "Review of Operating Segments" below.

Gross margin in fiscal year 2010 increased to 50.2% from 47.3% in fiscal year 2009. Key drivers of the improvement in gross margin were:

- favorable absorption of manufacturing overhead, due to increased volume, particularly related to consumable filtration products, and the estimated benefit of cost savings initiatives, including improved efficiency in manufacturing operations, that outpaced inflation, contributing an estimated 150-170 basis points in margin,



- a change in mix estimated to have increased gross margin percentage by 100-120 basis points, comprised of:
  - Ø a favorable impact within consumable filtration product sales from growth in sales in high margin markets and submarkets primarily Pharmaceuticals, Microelectronics and Machinery & Equipment, and
  - Ø a favorable impact from a decrease in systems sales, which typically have lower gross margins than consumables,
- an increase in pricing as well as the benefit of certain sales channel changes from distribution to direct contributing an estimated 20 basis points in margin.

The increase in gross margin reflects improvements in both the Life Sciences and Industrial segments. For a detailed discussion of the factors impacting gross margin by segment, refer to the section “Review of Operating Segments” below.

SG&A expenses in fiscal year 2010 increased by \$40,104, or 5.7% (an increase of \$24,627, or 3.5%, in local currency). SG&A (in local currency) in Life Sciences and Industrial increased, while SG&A in the Corporate Services Group was down. Selling expenses in local currency increased approximately 3.9%, while G&A expenses increased about 3.2%. The overall increase in SG&A (in local currency) reflects the impact of strategic and structural investments and company-wide inflationary increases in payroll and related costs partly offset by cost savings resulting from headcount reductions in the Industrial segment and reductions in discretionary spending company-wide. The strategic and structural investments made include:

- costs incurred for changes in sales channels from distribution to direct that primarily impacted Life Sciences,
- costs related to the establishment of the Life Sciences European headquarters in Switzerland,
- costs related to the purchase of a biotechnology company,
- geographic expansion in Latin America, Middle East and Asia, primarily impacting Industrial, and
- investments in information technology, impacting both Life Sciences and Industrial.

It is estimated that these strategic and structural investments accounted for approximately 90% of the local currency increase in SG&A. As a percentage of sales, SG&A expenses were 30.8% compared to 30.0% in fiscal year 2009. As a percentage of sales, G&A expenses were 13.5% compared to 13.4% in fiscal year 2009. For a detailed discussion of SG&A by segment, refer to the section “Review of Operating Segments” below.

R&D expenses were \$74,944 in fiscal year 2010 compared to \$71,213 in fiscal year 2009, an increase of \$3,731, or 5.2% (\$3,641, or 5.1% in local currency). The increase in R&D reflects increased spending in the Life Sciences business, while Industrial was flat. As a percentage of sales, R&D expenses were 3.1%, on par with fiscal year 2009. For a detailed discussion of R&D by segment, refer to the section “Review of Operating Segments” below.

In fiscal year 2010, the Company recorded ROTC of \$17,664. ROTC in the year was primarily comprised of severance and other costs related to the Company’s on-going cost reduction initiatives and an increase to previously established environmental reserves.

In fiscal year 2009, the Company recorded ROTC of \$30,723. ROTC in the year was primarily comprised of severance and other costs related to the Company’s on-going cost reduction initiatives, a charge to write-off in-process R&D acquired in the acquisition of GeneSystems, SA, charges for the impairment of assets and increases to previously established environmental reserves, net of receipt of an insurance claim payment.

The details of ROTC for the years ended July 31, 2010 and July 31, 2009 as well as the activity related to restructuring liabilities that were recorded in those years can be found in Note 2, Restructuring and Other Charges, Net, to the accompanying consolidated financial statements.

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In fiscal year 2010, the Company refinanced most of its long-term debt, which included the redemption of its \$280,000 6.00% Senior Notes due August 1, 2012. In connection with the redemption of these notes as well as the termination of the Company's \$500,000 revolving credit facility due in fiscal year 2011, the Company recorded a loss on extinguishment of debt totaling \$31,513, primarily comprised of a redemption premium and the write-off of other deferred financing costs.

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EBIT were \$342,045 in fiscal year 2010 compared to \$298,922 in fiscal year 2009. The impact of foreign currency translation increased EBIT by \$17,189 in fiscal year 2010. As a percentage of sales, EBIT were 14.2% compared to 12.8% in fiscal year 2009.

Net interest expense in fiscal year 2010 was \$14,324 compared to \$28,136 in fiscal year 2009. Net interest expense reflects the reversal of \$11,780 of accrued interest primarily related to the resolution of a foreign tax audit and expiring statutes of limitation for assessment. Excluding these items, net interest expense decreased \$2,032 compared to fiscal year 2009, reflecting the repayment of higher interest bearing foreign debt in fiscal year 2009. A decline in interest income, related to lower interest rates, partly offset the above.

In fiscal year 2010, the Company's effective tax rate was 26.4% as compared to 27.8% in fiscal year 2009. The decrease in the effective tax rate was primarily driven by the favorable resolution of foreign tax audits, partially offset by tax costs associated with the establishment of the Company's European headquarters and a higher effective tax rate related to the mix of foreign earnings. For the year ended July 31, 2010, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations and the resolution of foreign tax audits resulting in the recognition of \$16,200 of income tax benefit. For the year ended July 31, 2009, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits related to foreign operations, the repatriation of foreign earnings, the restructuring of certain foreign operations, the retroactive extension of the federal research credit provided for in the Emergency Economic Stabilization Act of 2008 and the favorable resolution of a tax audit.

Net earnings in fiscal year 2010 were \$241,248, or \$2.03 per share, compared with net earnings of \$195,619, or \$1.64 per share in fiscal year 2009. Company management estimates that foreign currency translation increased net earnings per share by 10 cents in fiscal year 2010.

### Review of Operating Segments

The following table presents sales and segment profit by business segment, reconciled to earnings before income taxes, for the fiscal years ended July 31, 2010 and July 31, 2009.

	2010	%		%	%
		Margin	2009	Margin	Change
<b>SALES:</b>					
Life Sciences	\$ 1,237,835		\$ 1,166,275		6.1
Industrial	1,164,097		1,162,883		0.1
Total	\$ 2,401,932		\$ 2,329,158		3.1
<b>SEGMENT PROFIT:</b>					
Life Sciences	\$ 280,089	22.6	\$ 234,055	20.1	19.7
Industrial	164,544	14.1	152,068	13.1	8.2
Total segment profit	444,633	18.5	386,123	16.6	15.2
Corporate Services Group	53,411		56,478		(5.4)
Operating Profit	391,222	16.3	329,645	14.2	18.7
ROTC, net	17,664		30,723		
Interest expense, net	14,324		28,136		
Loss on extinguishment of debt	31,513		-		
Earnings before income taxes	\$ 327,721		\$ 270,786		

### Life Sciences:

Presented below are Summary Statements of Segment Profit for the Life Sciences segment for the fiscal years ended July 31, 2010 and July 31, 2009:

	2010	%		%	%
		Sales	2009	Sales	Change
Sales	\$ 1,237,835		\$ 1,166,275		6.1
Cost of sales	569,097	46.0	578,439	49.6	(1.6)

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Gross margin	668,738	54.0	587,836	50.4	13.8
SG&A	340,628	27.5	309,441	26.5	10.1
R&D	48,021	3.9	44,340	3.8	8.3
Segment profit	\$ 280,089	22.6	\$ 234,055	20.1	19.7

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The tables below present sales by market and geography within the Life Sciences segment for the fiscal years ended July 31, 2010 and July 31, 2009, including the effect of exchange rates for comparative purposes.

	2010	2009	%	Exchange Rate Impact	% Change in Local Currency
<b>By Market</b>					
BioPharmaceuticals	\$ 620,279	\$ 550,620	12.7	\$ 13,304	10.2
Medical	399,507	389,841	2.5	6,449	0.8
Food & Beverage	218,049	225,814	(3.4)	4,357	(5.4)
<b>Total Life Sciences</b>	<b>\$ 1,237,835</b>	<b>\$ 1,166,275</b>	<b>6.1</b>	<b>\$ 24,110</b>	<b>4.1</b>
<b>By Geography</b>					
Western Hemisphere	\$ 430,285	\$ 399,614	7.7	\$ 1,602	7.3
Europe	595,719	578,319	3.0	6,881	1.8
Asia	211,831	188,342	12.5	15,627	4.2
<b>Total Life Sciences</b>	<b>\$ 1,237,835</b>	<b>\$ 1,166,275</b>	<b>6.1</b>	<b>\$ 24,110</b>	<b>4.1</b>

Life Sciences segment sales increased 4.1% in fiscal year 2010 compared to fiscal year 2009. The increase in sales reflects growth in consumables sales of 6.6%, partly offset by a decline in systems sales of 21.3%.

Increased pricing (driven by the BioPharmaceuticals and Food & Beverage markets) contributed \$13,009, or 1.2%, to consumables sales growth in the year and the volume related consumables increase was 5.4%. Systems sales represented 6.9% of total Life Sciences sales in fiscal year 2010 compared to 9.2% in fiscal year 2009. Life Sciences sales represented approximately 52% of total sales in fiscal year 2010 compared to 50% in fiscal year 2009.

Sales in the BioPharmaceuticals market, which is comprised of two submarket groupings (Pharmaceuticals and Laboratory), and represented about 50% of total Life Sciences sales, increased 10.2%. The sales results by the submarkets that comprise BioPharmaceuticals are discussed below:

- Sales in the Pharmaceuticals submarket, which represented approximately 43% of total Life Sciences sales, increased 8.7% in fiscal year 2010 compared to fiscal year 2009. The growth reflects an increase in consumables sales of 12.0% (all geographies contributing), partly offset by a decline in systems sales of 17.9%. Consumables sales growth was driven by increased demand in the vaccine marketplace and the use of the Company's single-use processing technologies. The Western Hemisphere also benefited from a change in route to market (from distributor to direct). In addition to growth in India and Korea, Asia also benefited from strong growth in China as drug producers are increasingly adopting Federal Drug Administration manufacturing standards to facilitate exporting their products to the U.S. and Europe. The decline in systems sales reflects a slowdown in capital investments by customers in the first half of fiscal year 2010.
- Growth in the Laboratory submarket (in all geographies), which represented less than 10% of Life Sciences sales, contributed to growth in the BioPharmaceuticals market as well.

Sales in the Medical market, which is comprised of blood filtration product sales and other infection and patient protection products sold to hospitals, original equipment manufacturers ("OEM") and cell therapy developers, and represented about 32% of total Life Sciences sales, increased 0.8% in fiscal year 2010 compared to fiscal year 2009.

- Sales of blood filtration products, which represented approximately 18% of total Life Sciences sales, increased 1.6% in fiscal year 2010 compared to fiscal year 2009. The growth in blood filtration sales was driven by the U.S., reflecting new product conversions at certain customers and increased sales to independent blood centers related to increased market share, and Asia, related to adoption of universal leukoreduction in certain countries and new tender wins. These increases were partly offset by reduced blood collections in the U.K. as well as decreased sales in Russia reflecting economic conditions in the region.

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- Sales to Hospitals, which represented less than 10% of total Life Sciences sales, increased 6.8% driven by an increase in point of use water filter sales. All geographies reported growth in Hospital sales compared to fiscal year 2009.

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Sales in the Food & Beverage market, which represented about 18% of total Life Sciences sales, decreased 5.4% reflecting a slowdown in capital investment in the beer, wine and bottled water sectors. Systems sales were down 24.6%. Consumables sales were up slightly as growth in the Western Hemisphere and Asia were offset by a decline in Europe, the largest region. An improving trend has emerged over the last few quarters, with high single-digit sales growth achieved in the fourth quarter as well as growth in orders over the last three quarters, particularly in systems.

Life Sciences gross margin in fiscal year 2010 increased 360 basis points to 54.0% from 50.4% in fiscal year 2009. Key drivers of the improvement in gross margin were:

- favorable absorption of manufacturing overhead, due to increased volume and the estimated benefit of cost savings initiatives, including improved efficiency in manufacturing operations, that outpaced inflation, contributing an estimated 160-180 basis points in margin,
- a change in mix estimated to have increased gross margin percentage by 140-160 basis points, comprised of:
  - Ø a favorable impact from a higher proportion of consumables sales to Pharmaceuticals customers versus Medical and Food & Beverage customers, the former generally carrying higher gross margin, and
  - Ø a favorable impact from a decrease in systems sales as discussed above, which typically have lower gross margins than consumables. Furthermore, within systems sales, there was a higher proportion of sales of smaller scale standard systems, which generally carry higher margins,
- an increase in pricing, as well as the benefit of certain sales channel changes from distribution to direct contributing an estimated 40 basis points in margin.

SG&A expenses in fiscal year 2010 increased by \$31,187, or 10.1% (an increase of \$25,000, or 8.1% in local currency), compared to fiscal year 2009. Selling expenses in local currency increased approximately 7.8%, while G&A expenses increased about 8.5%. The increase in SG&A in local currency principally reflects the impact of strategic and structural investments and inflationary increases in payroll and employee benefit costs. SG&A as a percentage of sales increased to 27.5% from 26.5% in fiscal year 2009, reflecting the increase in spending. As a percentage of sales, G&A expenses were 11.1% compared to 10.8% in fiscal year 2009.

R&D expenses were \$48,021 compared to \$44,340 in fiscal year 2009, an increase of \$3,681, or 8.3% (\$3,688, or 8.3% in local currency). As a percentage of sales, R&D expenses were 3.9% compared to 3.8% in fiscal year 2009.

Segment profit dollars in fiscal year 2010 were \$280,089, an increase of \$46,034, or 19.7% (\$36,627, or 15.6% in local currency) compared to fiscal year 2009. Segment margin improved to 22.6% from 20.1% in fiscal year 2009.

### Industrial:

Presented below are summary Statements of Segment Profit for the Industrial segment for the fiscal years ended July 31, 2010 and July 31, 2009:

	2010	% of	2009	% of	%
		Sales		Sales	Change
Sales	\$ 1,164,097		\$ 1,162,883		0.1
Cost of sales	626,733	53.8	650,029	55.9	(3.6)
Gross margin	537,364	46.2	512,854	44.1	4.8
SG&A	345,897	29.7	333,913	28.7	3.6
R&D	26,923	2.3	26,873	2.3	0.2
Segment profit	\$ 164,544	14.1	\$ 152,068	13.1	8.2

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The tables below present sales by market and geography within the Industrial segment for the fiscal years ended July 31, 2010 and July 31, 2009, including the effect of exchange rates for comparative purposes.

	2010	2009	% Change	Exchange Rate Impact	% Change in Local Currency
<b>By Market</b>					
Energy & Water	\$ 479,866	\$ 505,468	(5.1)	\$ 14,177	(7.9)
Aeropower	418,203	446,386	(6.3)	8,641	(8.3)
Microelectronics	266,028	211,029	26.1	11,361	20.7
Total Industrial	\$ 1,164,097	\$ 1,162,883	0.1	\$ 34,179	(2.8)
<b>By Geography</b>					
Western Hemisphere	\$ 359,076	\$ 370,088	(3.0)	\$ 2,527	(3.7)
Europe	350,233	381,988	(8.3)	3,396	(9.2)
Asia	454,788	410,807	10.7	28,256	3.8
Total Industrial	\$ 1,164,097	\$ 1,162,883	0.1	\$ 34,179	(2.8)

Industrial segment sales decreased 2.8% in fiscal year 2010, reflecting declines of 7.9% in the Energy & Water market and 8.3% in the Aeropower market, partly offset by growth of 20.7% in the Microelectronics market. The overall decline in Industrial sales reflects a decrease in systems sales of 11.7%, while consumables sales were down slightly. Systems sales represented 16.0% of total Industrial sales in fiscal year 2010 compared to 17.6% in fiscal year 2009. Industrial sales represented approximately 48% of total sales in fiscal year 2010 compared to 50% in fiscal year 2009.

Sales in the Energy & Water market, which is comprised of three submarkets; Fuels & Chemicals, Municipal Water, and Power Generation, and represented about 41% of total Industrial sales, decreased 7.9% compared to last year. The sales results by the submarkets that comprise the Energy & Water market are discussed below:

- Sales in the Fuels & Chemicals submarkets, which represented approximately 23% of total Industrial sales, were down 8.3% reflecting a decrease in demand in the chemical and refining sectors. Sales in the oil & gas and alternative energy sectors grew, partly mitigating this impact. Consumables sales decreased 8.6% (all geographies were down), while systems sales declined 7.6% (Western Hemisphere and Europe were down).
- Sales in the Power Generation submarket, which represented less than 10% of total Industrial sales, increased 0.8% in fiscal year 2010 compared to fiscal year 2009 as growth in Asia, fueled by demand in the wind-turbine market, was offset by declines in the Western Hemisphere and Europe related to weakness in the turbo machinery sector in light of reduced demand for power.
- Municipal Water submarket sales, which represented slightly less than 10% of total Industrial sales, decreased 13.8%. By geography, sales in the Western Hemisphere (the company's largest Municipal Water geographic market) were down about 1%, while sales in Europe and Asia were down 25.4% and 33.9%, respectively. The overall sales decline in the year reflects the slowing of orders in fiscal year 2009 (order to shipment in the Municipal Water submarket can be one to two years). Europe was also negatively impacted by a reduction in publicly funded projects related to the fiscal challenges of local governments and overall weak economic conditions in the region. Order activity has been strong in fiscal year 2010 in the Western Hemisphere. As a result, overall backlog increased over 30% at July 31, 2010 compared to July 31, 2009.

The Aeropower market is comprised of sales of air, water, lubrication, fuel and machinery and hydraulic protection products to OEM manufacturers and end-user customers in Military and Commercial Aerospace as well as in the Machinery & Equipment submarkets, which consist of a grouping of producers of mobile equipment and trucks, pulp and paper, mining, automotive and metals. Sales in the Aeropower market which represented about 36% of total Industrial sales, decreased 8.3% compared to fiscal year 2009. The sales results by the submarkets that comprise Aeropower are discussed below:

- Sales to the Military Aerospace submarket, which represented slightly less than 10% of total Industrial sales, decreased 24.4% reflecting delay in orders, and projects in fiscal year 2009 that did not repeat in fiscal year 2010.



- Sales to the Commercial Aerospace submarket, which represented less than 10% of total Industrial sales, decreased 10.6% primarily reflecting reductions in the Western Hemisphere related to weakness in the regional and private jet marketplace.
- Sales in the Machinery & Equipment submarkets, which represented approximately 19% of total Industrial sales, increased 3.9%. These submarkets, which had been negatively impacted by the global macroeconomic environment, rebounded in the second half of fiscal year 2010 as customers began to replenish depleted inventories and OEM production rates increased. By geography, sales in both the Western Hemisphere and Asia grew year over year, while sales in Europe were down.

Microelectronics sales, which represented about 23% of total Industrial sales, increased 20.7% reflecting strong growth in all geographies. Overall, the sales growth in the year reflects a recovery in the semiconductor market as well as an increase in OEM activity. Sales in the macroelectronics marketplace, such as the inkjet and LED sectors, also contributed to the growth in fiscal year 2010.

Industrial gross margin in fiscal year 2010 increased 210 basis points to 46.2% from 44.1% in fiscal year 2009. Key drivers of the improvement in gross margin were:

- favorable absorption of manufacturing overhead and the estimated benefit of cost savings initiatives, including improved efficiency in manufacturing operations, that outpaced inflation and increased warranty costs, contributing an estimated 130-150 basis points in margin,
- a change in mix estimated to have increased gross margin percentage by 60-80 basis points, comprised of:
  - Ø a favorable impact from the growth in sales in high margin markets, such as Microelectronics, and Machinery & Equipment, and
  - Ø a decrease in systems sales, which typically have lower gross margins than consumables. The mix of systems sales decreased to 16.0% of total Industrial sales compared to 17.6% in fiscal year 2009.

SG&A expenses in fiscal year 2010 increased by \$11,984, or 3.6% (an increase of \$2,726, or 0.8% in local currency), compared to fiscal year 2009. Selling expenses in local currency were flat, while G&A expenses increased about 1.9%. The increase in SG&A in local currency principally reflects the impact of strategic and structural investments, principally investments in information technology and geographic expansion, inflationary increases (principally payroll and employee benefit costs), and increased incentive compensation partly offset by cost savings as discussed above. SG&A expenses as a percentage of sales were 29.7% compared to 28.7% in fiscal year 2009. As a percentage of sales, G&A expenses were 12.2% compared to 11.7% in fiscal year 2009.

R&D expenses were essentially flat in fiscal year 2010 coming in at \$26,923 compared to \$26,873 in fiscal year 2009. As a percentage of sales, R&D expenses were 2.3%, on par with fiscal year 2009.

Segment profit dollars in fiscal year 2010 were \$164,544, an increase of \$12,476, or 8.2% (\$4,557, or 3.0% in local currency) compared to fiscal year 2009. Segment margin increased to 14.1% from 13.1% in fiscal year 2009.

#### Corporate Services Group:

Corporate Services Group expenses in fiscal year 2010 were \$53,411 compared to \$56,478 in fiscal year 2009, a decrease of \$3,067 or 5.4% (\$3,099, or 5.5% in local currency). The decrease in Corporate Services Group expenses primarily reflects a decline in consulting fees, a gain on the sale of investment securities held by the Company's benefit protection trust and a decrease in foreign currency transaction losses partly offset by an increase in incentive compensation.

#### Liquidity and Capital Resources

Non-cash working capital, which is defined as working capital excluding cash and cash equivalents, notes receivable, notes payable and the current portion of long-term debt, was approximately \$676,500 at July 31, 2011 as compared with \$608,000 at July 31, 2010. Excluding the effect of foreign exchange (discussed below), non-cash working capital increased approximately \$26,100 compared to July 31, 2010.



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The Company's balance sheet is affected by spot exchange rates used to translate local currency amounts into U.S. Dollars. In comparing spot exchange rates at July 31, 2011 to those at July 31, 2010, the Euro, the British Pound and JPY have strengthened against the U.S. Dollar. The effect of foreign currency translation increased non-cash working capital by \$42,439, including net inventory, net accounts receivable and other current assets by \$25,385, \$41,519 and \$6,980, respectively, as compared to July 31, 2010. Additionally, foreign currency translation increased accounts payable and other current liabilities by \$27,773 and decreased current income taxes payable by \$3,672.

Net cash provided by operating activities in fiscal year 2011 was \$429,987 as compared to \$377,860 in fiscal year 2010, an increase of \$52,127, or about 14% reflecting the increase in net earnings accompanied by an improvement in working capital management. Although cash flow in fiscal year 2011 benefited from continued improvement in working capital management as discussed below, the benefit to cash flow in fiscal year 2010 was greater as the improvement in the cash conversion cycle versus fiscal year 2009 was more pronounced.

The Company's full cash conversion cycle, defined as days in inventory outstanding ("DIO") plus days sales outstanding ("DSO") less days payable outstanding ("DPO"), decreased to 111 days in the quarter ended July 31, 2011 from 115 days in the quarter ended July 31, 2010. This improvement reflects a decrease in DIO partly offset by a decrease in DSO and DPO.

In the quarter ended April 30, 2011, the full cash conversion cycle decreased to 130 days from 137 days in the quarter ended April 30, 2010. This improvement reflects a decrease in DIO and DSO partly offset by a decrease in DPO. In the quarter ended January 31, 2011, the full cash conversion cycle decreased to 145 days from 155 days in the quarter ended January 31, 2010, reflecting a decrease in DIO and DSO partly offset by a decrease in DPO. In the quarter ended October 31, 2010, the full cash conversion cycle decreased to 142 days from 161 days in the quarter ended October 31, 2009 reflecting a decrease in DIO and DSO, as well as an increase in DPO.

Free cash flow, which is defined as net cash provided by operating activities less capital expenditures, was \$269,216, or about 85% of net earnings in fiscal year 2011, as compared with \$241,547, or about 100% of net earnings in fiscal year 2010. The increase in free cash flow reflects the increase in net cash provided by operating activities as discussed above, partly offset by an increase in capital expenditures. The Company utilizes free cash flow as one way to measure its current and future financial performance. Company management believes this measure is important because it is a key element of its planning. The following table reconciles net cash provided by operating activities to free cash flow.

	2011	2010	2009
Net cash provided by operating activities	\$ 429,987	\$ 377,860	\$ 327,495
Less capital expenditures	160,771	136,313	133,049
Free cash flow	\$ 269,216	\$ 241,547	\$ 194,446
Net Earnings	\$ 315,496	\$ 241,248	\$ 195,619
Free cash flow conversion	85.3%	100.1%	99.4%

Overall, net debt (debt net of cash and cash equivalents) as a percentage of total capitalization (net debt plus equity) was 9.1% at July 31, 2011 as compared to 19.4% at July 31, 2010. Net debt decreased by approximately \$135,100 compared with July 31, 2010, comprised of a decrease in gross debt of \$87,900 and an increase in cash and cash equivalents of \$13,800. The impact of foreign exchange rates decreased net debt by about \$33,400.

The Company's 5-year senior revolving credit facility contains financial covenants which require the Company to maintain a minimum consolidated net interest coverage ratio of 3.5:1, based upon trailing four quarters results, and a maximum consolidated leverage ratio of 3.5:1, based upon trailing four quarters results. In addition, the facility includes other covenants that under certain circumstances can restrict the Company's ability to incur additional indebtedness, make investments and other restricted payments, enter into sale and leaseback transactions, create liens and sell assets. As of July 31, 2011, the Company was in compliance with all related financial and other restrictive covenants, including limitations on indebtedness.

The Company manages certain financial exposures through a risk management program that includes the use of foreign exchange and interest rate derivative financial instruments. Derivatives are executed with counterparties with a minimum credit rating of "A" by Standard and Poor's and Moody's Investor Services, in accordance with the Company's policies. The Company does not utilize derivative instruments for trading or speculative purposes.





The Company conducts transactions in currencies other than their functional currency. These transactions include non-functional currency intercompany and external sales as well as intercompany and external purchases. The Company uses foreign exchange forward contracts, matching the notional amounts and durations of the receivables and payables resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by changing foreign exchange rates. The risk management objective of holding foreign exchange derivatives is to mitigate volatility to earnings and cash flows due to changes in foreign exchange rates. The notional amount of foreign currency forward contracts entered into during the year ended July 31, 2011 was \$2,403,274. The notional amount of foreign currency forward contracts outstanding as of July 31, 2011 was \$296,252. The Company's foreign currency balance sheet exposures resulted in the recognition of a gain within SG&A of approximately \$7,003 in the year ended July 31, 2011, before the impact of the measures described above. Including the impact of the Company's foreign exchange derivative instruments, the net recognition within SG&A was a gain of approximately \$2,087 in the year ended July 31, 2011.

On November 30, 2010, the Company established a commercial paper program under which the Company may issue up to \$600,000 of unsecured commercial paper notes. The Company's board of directors has authorized debt financings through the issuance of commercial paper plus borrowings under the Company's senior revolving credit facility of up to a maximum aggregate amount outstanding at any time of \$600,000. The proceeds of the commercial paper issuances were used for general corporate purposes, including paying down existing balances under the Company's senior revolving credit facility.

As of July 31, 2011, the Company had \$214,957 of outstanding commercial paper, all of which is recorded as current liabilities under notes payable in the Company's consolidated balance sheet. Commercial paper issuances during the year carried interest rates ranging between 0.37% and 0.47% and original maturities between 22 and 61 days. As of July 31, 2011, the Company does not have any outstanding borrowings under its existing senior revolving credit facility.

The Company utilizes cash flow generated from operations and its senior revolving credit facility to meet its short-term liquidity needs. Company management considers its cash balances, lines of credit and access to the commercial paper and other credit markets, along with the cash typically generated from operations, to be sufficient to meet its anticipated liquidity needs.

As of July 31, 2011, the amount of cash and cash equivalents held by foreign subsidiaries was \$545,475. The Company does not expect any restrictions or taxes on repatriation of cash held outside of the U.S. to have a material effect on the Company's overall liquidity or financial position.

Capital expenditures were \$160,771 in fiscal year 2011. Depreciation expense was \$84,461 and amortization expense was \$13,645 in fiscal year 2011.

On November 15, 2006, the board of directors authorized an expenditure of \$250,000 to repurchase shares of the Company's common stock. On October 16, 2008, the board authorized an additional expenditure of \$350,000 to repurchase shares. At July 31, 2010, there was \$352,944 remaining under the current stock repurchase programs. The Company repurchased stock of \$149,907 in fiscal year 2011 leaving \$203,037 remaining at July 31, 2011 under the current stock repurchase programs. Net proceeds from stock plans were \$60,329 in fiscal year 2011.

In fiscal year 2011, the Company paid dividends of \$77,641 compared to \$71,284 in fiscal year 2010, an increase of 9%. The Company increased its quarterly dividend by 9.4% from 16 cents to 17.5 cents per share, effective with the dividend declared on January 20, 2011.

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The following is a summary of the Company's contractual payment commitments as of July 31, 2011 (interest on long-term debt includes the amount of interest due to be paid during the respective fiscal year based upon the amount of debt outstanding as of July 31, 2011):

	Year Ended						Total
	2012	2013	2014	2015	2016	Thereafter	
Long-term debt	\$ 511	\$ 473	\$ 422	\$ 116,206	\$ 420	\$ 376,205	\$ 494,237
Interest on long-term debt	21,587	21,561	21,539	21,072	18,807	75,067	179,633
Operating leases	27,045	17,827	12,095	5,879	3,822	6,238	72,906
Purchase commitments	91,039	10,990	3,545	404	302	2,033	108,313
Other commitments	549	356	330	315	300	1,100	2,950
Total commitments	\$ 140,731	\$ 51,207	\$ 37,931	\$ 143,876	\$ 23,651	\$ 460,643	\$ 858,039

The Company had gross liabilities for unrecognized tax benefits of approximately \$188,380 and related accrued interest of \$22,591 as of July 31, 2011, which were excluded from the table above. See Note 11, Income Taxes, to the accompanying consolidated financial statements for further discussion of these amounts.

### Adoption of New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued updated guidance amending existing revenue recognition accounting pronouncements that address multiple element arrangements. This guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company or other vendors. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. As a result, some companies may recognize revenue on transactions that involve multiple deliverables earlier than under previously existing authoritative guidance. This new authoritative guidance was effective for the Company beginning with its first quarter of fiscal year 2011. The adoption of this authoritative guidance did not have a material impact on the Company's consolidated financial statements.

### Recently Issued Accounting Pronouncements

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, which for the Company is the first quarter of fiscal 2013. The Company does not expect this guidance will have a material impact on its results of operations or financial position.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of this disclosure-only guidance will not have an impact on the Company's consolidated financial results and is effective for the Company beginning with its third quarter of fiscal year 2012.

In May 2011, the FASB issued amendments to fair value measurement and disclosure requirements. This guidance amends United States generally accepted accounting principles ("U.S. GAAP") to conform with measurement and disclosure requirements in International Financial Reporting Standards ("IFRS"). The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This includes clarification of the Board's intent about the application of existing fair value measurement and disclosure requirements and those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. In addition, to improve consistency in application across jurisdictions, some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way (for example, using the word "shall" rather than "should" to describe the requirements in U.S. GAAP). This amended guidance is to be applied prospectively and is effective for the Company beginning with its third quarter of fiscal year 2012. The Company is currently evaluating this guidance and has not yet determined the impact the adoption will have on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company's primary market risks relate to adverse changes in foreign currency exchange rates and interest rates. The sensitivity analyses presented below assume simultaneous shifts in each respective rate, and quantify the impact on the Company's earnings and cash flows. The changes used for these analyses reflect the Company's view of changes that are reasonably possible over a one-year period. Actual changes that differ from the changes used for these analyses could yield materially different results.

Foreign Currency

The Company's reporting currency is the U.S. dollar. Because the Company operates through subsidiaries or branches in over thirty countries around the world, its earnings are exposed to translation risk when the financial statements of the subsidiaries or branches, as stated in their functional currencies, are translated into the U.S. dollar. Company management estimates that foreign exchange translation increased earnings per share by 13 cents in fiscal year 2011.

Most of the Company's products are manufactured in the U.S., Puerto Rico, Germany and the United Kingdom, and then sold into many countries. The primary foreign currency exposures relate to adverse changes in the relationships of the U.S. dollar to the Euro, the Japanese Yen (the "Yen"), the British Pound (the "Pound"), the Australian Dollar, the Canadian Dollar, Swiss Franc and the Singapore Dollar, as well as adverse changes in the relationship of the Pound to the Euro. Exposure exists when the functional currency of the buying subsidiaries weakens against the U.S. dollar, the Pound or the Euro, thus causing an increase of the product cost to the buying subsidiary or a reduction in the sales price from the selling subsidiary, which adversely affects the Company's consolidated gross margin and net earnings. The effect of foreign exchange is partially mitigated because of the significant level of manufacturing done in Europe. In fiscal year 2011, the Euro, Yen, Pound Australian Dollar, Canadian Dollar, Swiss Franc and Singapore Dollar strengthened by approximately 0.88%, 10.16%, 1.66%, 14.28%, 6.08%, 13.72%, and 9.01%, respectively, against the U.S. dollar compared with the average exchange rates in effect in fiscal year 2010. Additionally, the Euro weakened against the Pound by approximately 0.77%. Due to the difficulty in estimating the economic effect of foreign currency rates, particularly in periods of high volatility of such rates, Company management does not provide such estimated effects and reports only the translation effect to earnings per share disclosed above.

The Company is also exposed to transaction risk from adverse changes in exchange rates. These short-term transaction exposures are primarily Yen, Euro, Pound and Swiss Franc denominated receivables and payables. These short-term exposures to changing foreign currency exchange rates are managed by opening forward foreign exchange contracts ("forwards") to offset the earnings and cash flow impact of non-functional currency denominated receivables and payables as well as the expeditious payment of balances. The Company does not enter into forwards for trading purposes. At July 31, 2011, these exposures amounted to approximately \$319,715 and were offset by forwards with a notional principal amount of \$296,252. If a hypothetical 10% simultaneous adverse change had occurred in exchange rates as of July 31, 2011, net earnings would have decreased by approximately \$5,280, or approximately 4 cents per share.

Interest Rates

The Company is exposed to changes in interest rates, primarily due to its financing and cash management activities, which include long and short-term debt as well as cash and certain short-term, highly liquid investments considered to be cash equivalents.

The Company's debt portfolio is comprised of both fixed and variable rate borrowings. The Company manages interest rate exposure by portfolio balancing including employing interest rate swaps. The Company's debt portfolio was approximately 30% variable rate at July 31, 2011, compared to 37% variable rate at July 31, 2010.

For the year ended July 31, 2011, interest expense, net of interest income, was \$18,903. A hypothetical 10% shift in market interest rates for fiscal year 2011 (e.g., if an assumed market interest rate of 5.0% increased to 5.5%) could have an adverse affect on interest expense, net of approximately \$236.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this item are located immediately following the signature pages of this Form 10-K. See Item 15.(a)(1) for a listing of financial statements provided.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>2011:</b>					
Net sales	\$ 605,477	\$ 645,232	\$ 709,808	\$ 780,399	\$ 2,740,916
Gross profit	308,673	332,485	353,861	377,498	1,372,517
Restructuring and other charges, net (a)	1,409	4,789	7,723	19,920	33,841
Earnings before income taxes	97,503	104,009	109,429	108,581	419,522
Net earnings	71,409	75,664	71,069	97,354	315,496
<b>Earnings per share:</b>					
Basic	\$ 0.61	\$ 0.65	\$ 0.61	\$ 0.84	\$ 2.71
Diluted	\$ 0.61	\$ 0.64	\$ 0.60	\$ 0.82	\$ 2.67
<b>2010:</b>					
Net sales	\$ 546,939	\$ 560,401	\$ 615,982	\$ 678,610	\$ 2,401,932
Gross profit	270,198	284,285	313,532	338,087	1,206,102
Restructuring and other charges, net (a)	4,057	572	2,030	11,005	17,664
Loss on extinguishment of debt (b)	—	—	—	31,513	31,513
Earnings before income taxes	74,840	72,368	101,959	78,554	327,721
Net earnings	66,983	49,619	69,691	54,955	241,248
<b>Earnings per share:</b>					
Basic	\$ 0.57	\$ 0.42	\$ 0.59	\$ 0.47	\$ 2.05
Diluted	\$ 0.56	\$ 0.42	\$ 0.58	\$ 0.46	\$ 2.03

(a) Refer to Note 2, Restructuring and Other Charges, Net, to the accompanying consolidated financial statements.

(b) Refer to Note 8, Notes Payable and Long-term Debt, to the accompanying consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

(a) Management's annual report on internal control over financial reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of July 31, 2011.

The attestation report of the independent registered public accounting firm on the Company's internal control over financial reporting is included in this report under Item 9A.(b).

(b) Attestation report of the registered public accounting firm.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Pall Corporation:

We have audited Pall Corporation and subsidiaries' internal control over financial reporting as of July 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pall Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on internal control over financial reporting (Item 9A.(a)). Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.





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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Pall Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pall Corporation and subsidiaries as of July 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2011 and our report dated September 29, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
KPMG LLP

Melville, New York  
September 29, 2011

### (c) Changes in internal control over financial reporting.

There are a number of significant business improvement initiatives designed to improve processes and enhance customer and supplier relationships and opportunities. These include information systems upgrades and integrations that are in various phases of planning or implementation and contemplate enhancements of ongoing activities to support the growth of the Company's Shared Services Group capabilities and standardization of its financial systems. When taken together, these changes, which have and will occur over a multi year period, are expected to have a favorable impact on the Company's internal control over financial reporting. The Company is employing a project management and phased implementation approach that will provide continued monitoring and assessment in order to maintain the effectiveness of internal control over financial reporting during and subsequent to implementation of these initiatives.

In connection with the aforementioned business improvement initiatives, during the second and third quarters of fiscal year 2011, certain significant operations migrated to the Company's global Enterprise Resource Planning ("ERP") software system which encompassed significant changes in transactional processes and internal control over financial reporting. The purpose of the ERP system is to facilitate the flow of information between all business functions inside the boundaries of the Company and manage the connections to outside stake holders. Built on a centralized database and utilizing a common computing platform, the ERP system consolidates business operations into a more uniform, enterprise wide system environment. The Company's ERP implementation is accompanied by process changes and improvements, including those that impact internal control over financial reporting.

During the third and fourth quarters, the Company also continued to centralize the management of its European and Asian operations resulting in significant changes to aspects of the internal control environment.



In connection with these migrations and accompanying process changes, the Company has instituted material changes in its internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

(a) Identification of directors and corporate governance:

Dr. Amy E. Alving, age 48, is the chief technology officer and a senior vice president at Science Applications International Corporation (“SAIC”), an engineering and technology applications company. Prior to joining SAIC in 2005, she served as the Director of the Special Projects Office at the Defense Advanced Research Projects Agency where she was also a member of the Senior Executive Service. Earlier, Dr. Alving was a White House Fellow serving at the Department of Commerce. Dr. Alving has been a member or advisor to the Army Science Board, the Naval Research Advisory Committee, the Defense Science Board and the National Academies Studies and is currently a member of Council on Foreign Relations. She has been a director of the Company since April 2010 and is a member of the nominating/governance committee.

Dr. Alving brings a unique blend of business, government and academic experience to the board. Dr. Alving offers senior leadership, operations, strategic and policy experience to the board. From her tenure at SAIC, Dr. Alving also brings to the board valuable insight into the scientific and technical aspects of our business and, based on her engineering background, provides an in-depth understanding of and valuable guidance to the Industrial segment of our business.

Daniel J. Carroll, Jr., age 66, was the chief executive officer of Telcordia Technologies (“Telcordia”) from September 2005 until May 2007. He continues to serve on the Telcordia board. Telcordia is a global provider of telecommunications network software and services for internet protocol, wireline, wireless and cable customers. Mr. Carroll held a number of executive positions with AT&T Corp. (“AT&T”) until its spin-off of Lucent Technologies Inc. He retired from his employment as an officer of Lucent in 2000. He has been a director of the Company since 1999 and served as lead director from 2003 until March 2011. Mr. Carroll is a member of the audit committee and the compensation committee.

Mr. Carroll’s experience as a chief executive officer allows him to bring senior leadership, management expertise and business acumen to the board. Mr. Carroll also has significant financial expertise and operational experience gained through his various executive positions at AT&T and as chief executive officer of Telcordia. In addition, as a licensed engineer, Mr. Carroll has a thorough understanding of, and brings valuable insight into, the Industrial segment of our business.

Robert B. Coutts, age 61, was executive vice president of Lockheed Martin, a large, diversified company with international operations, from October 1998 until his retirement in April 2008. While serving in this capacity, he was elected chairman of the board of Sandia Corporation, a subsidiary of Lockheed Martin that manages Sandia National Laboratories for the U.S. Department of Energy’s Nuclear Security Administration. Prior to this, Mr. Coutts ran Lockheed Martin’s Electronic Systems business, was executive vice president of the Systems Integration business area, and president and chief operating officer of the former Electronics Sector. Earlier in his career, Mr. Coutts was president of Martin Marietta Aero & Naval Systems and general manager of the GE Aerospace Operations Division. Mr. Coutts serves on the board of Hovnanian Enterprises, Inc., Stanley Black & Decker and several not-for-profit organizations. He has been a director of the Company since 2009 and is a member of the compensation committee.

As a former executive vice president of Lockheed Martin responsible for the electronic systems business, with sales over \$11 billion and over 32,000 employees, Mr. Coutts brings critical business, operational and strategic insight. Mr. Coutts also has valuable senior leadership, management and regulatory experience and possesses broad knowledge of the technology and aerospace fields, both of which are important to the Company’s business, particularly the Industrial segment. In addition, Mr. Coutts’ service on the board of two other public companies allows him to bring insight into current issues facing public companies and corporate governance and compensation practices at other public companies.

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Cheryl W. Grisé, age 59, was executive vice president of Northeast Utilities, a public utility holding company, from December 2005 until her retirement in July 2007. Ms. Grisé also served in various senior management positions at Northeast Utilities since 1998, including President-Utility Group and chief executive officer of all Northeast Utilities operating subsidiaries. Ms. Grisé was a director of Dana Corporation until February 1, 2008 and currently serves on the boards of MetLife, Inc. (where she is lead director) and Pulte Group, Inc. She is also a member of the boards of the University of Connecticut Foundation and Kingswood-Oxford School. Ms. Grisé has been a director of the Company since August 2007. She is a member of the audit committee and the compensation committee, and has served as Chair of the compensation committee since August 2009.

Ms. Grisé brings to the board senior leadership, extensive business, operating, finance, legal and policy experience acquired during her executive level experiences at Northeast Utilities. Ms. Grisé's service on other public company boards and their committees also allows her to bring insight into corporate governance practices, financial issues, compensation and related matters and other current issues facing public companies.

Ronald L. Hoffman, age 63, was chief executive officer since January 2005 and a director and president since 2003 of Dover Corporation, a public company that manufactures industrial products, until his retirement in December 2008. Mr. Hoffman began his career at Allis Chalmers. He joined Dover Corporation in 1996 when it acquired Tulsa Winch, an Oklahoma company of which he was then president and part owner. Mr. Hoffman served as president of Tulsa Winch until 2000 and as executive vice president of Dover Resources Inc. ("Dover Resources") from 2000 to 2002. He was vice president of Dover Corporation from 2002 to July 2003. He was then chief operating officer of Dover Corporation from July 2003 to December 2004 during which time he continued to serve Dover Resources as chief executive officer and president. He has been a director of the Company since 2008 and was named chairman of the board in March 2011. Mr. Hoffman is a member of the executive committee and has served as Chair of that committee since April 2011.

Mr. Hoffman's service as chief executive officer and president of Dover Corporation provides him with significant experience in the operations, challenges and complex issues facing major international corporations competing in technology-driven markets. In addition, Mr. Hoffman brings to the board extensive business, senior leadership and management experience gained during his tenure at Dover Corporation.

Eric Krasnoff, age 59, has been chief executive officer of the Company since July 1994 and has at various times, including currently, served as president of the Company. He serves on the board of three not-for-profit organizations. Mr. Krasnoff has also been a director of the Company since 1994.

Mr. Krasnoff has served the Company for 35 years in various positions, including group vice president and chief operating officer. As the chief executive officer of the Company since 1994, Mr. Krasnoff brings to the board a deep and comprehensive knowledge of the Company, the filtration industry and each of the Company's end-markets.

Mr. Krasnoff is scheduled to retire effective October 3, 2011, and will be succeeded in his current roles by Lawrence D. Kingsley, who will also become a director as of such date.

Edwin W. Martin, Jr., age 80, was associate and deputy U.S. commissioner of education from 1969 to 1979. He was nominated by President Carter as the nation's first Assistant Secretary for Special Education and Rehabilitative Services and confirmed unanimously by the Senate, serving as assistant secretary of education from 1979 to 1981. From 1981 to 1994, Dr. Martin was president and chief executive officer of the National Center for Disability Services and a Board Member. In 1994, he was named president-emeritus and retired in 2011. Dr. Martin served as a Lecturer in Education at Harvard University, and as an Adjunct Professor of Education at Teacher's College, Columbia University. In 2007, Dr. Martin was also elected mayor of Venice, Florida for a three year term. Dr. Martin currently serves as a trustee of the Sarasota Friends Meeting. He has been a director of the Company since 1993 and is a member of the compensation committee and executive committee.

Dr. Martin contributes to the board a strong understanding of policy and regulation acquired during his tenure in various positions with the federal government. Dr. Martin also brings valuable business, senior leadership and management experience acquired during his service as chief executive officer, a board member of the National Center for Disability Services and as mayor of Venice, Florida. In addition, Dr. Martin possesses extensive knowledge of the Company's business and operations as a result of his 16 years of service on the Company's board.

Dennis N. Longstreet, age 66, was, from 1998 until his retirement in late 2005, company group chairman of Johnson & Johnson Medical Devices, the culmination of a 36-year career in operational and sales management roles with Johnson & Johnson, a manufacturer of health care products and provider of related services for the consumer, pharmaceutical and medical devices and diagnostic markets. He is a former chairman of the AdvaMed Industry Association and serves on the board of In Health, a not-for-profit organization formed by AdvaMed. Mr. Longstreet also serves on the board of Avalign Technologies, Inc. He has been a director of the Company since 2006 and is a member of the nominating/governance committee and the executive committee.



As a result of his tenure at Johnson & Johnson, Mr. Longstreet brings to the board extensive senior executive level expertise in the Life Sciences industry, including insight into the complex issues, challenges and regulatory landscape. Mr. Longstreet also brings business, senior leadership, merger and acquisitions, and management experience to the board.

Katharine L. Plourde, age 59, was a principal and analyst at the investment banking firm of Donaldson, Lufkin & Jenrette, Inc. (“DLJ”), until November 1997. Since that time, she has engaged in private investing and is currently serving on the board of one private corporation. Since February 2002, she has also served on the board of OM Group Inc. Ms. Plourde has been a director of the Company since 1995 and is a member of the audit committee and the nominating/governance committee. Ms. Plourde has served as Chair of the nominating/governance committee since 2006.

As a result of her tenure at DLJ and two other investment firms, Ms. Plourde brings significant financial expertise to the board, including with respect to all aspects of financial reporting, accounting, corporate finance and capital markets. At those firms, Ms. Plourde was responsible for covering specialty chemical, specialty material and industrial gas companies, which provides her with additional insight into the Company’s business, including particularly the fuels and chemicals industry, a major market of the Company’s Industrial segment. In addition, Ms. Plourde’s service on the board of another public company has given her experience with current issues facing public companies and corporate governance and compensation practices.

Dr. Edward L. Snyder, age 65, is professor of laboratory medicine and associate chair for clinical affairs of the Department of Laboratory Medicine at Yale University School of Medicine. He is also director of Blood Bank/Apheresis Service and assistant chief/associate chair for clinical affairs at the Department of Laboratory Medicine at Yale-New Haven Hospital. Dr. Snyder has “appointed consultant” status with the Food and Drug Administration Medical Devices Advisory Committee—Hematology and Pathology Devices Panel, and is a past president of the American Association of Blood Banks. He is the immediate past chairman of the volunteer board of the National Marrow Donor Program and a member of the American Association of Blood Banks National Blood Foundation board of trustees. Dr. Snyder has been a director of the Company since 2000 and is a member of the nominating/governance committee.

Dr. Snyder’s training, experience and achievements in hematology give him a critical perspective into a major market of the Company’s Life Sciences segment, enabling him to bring valuable insight to the board. In addition, Dr. Snyder’s participation on several not-for-profit boards enables him to bring to the board leadership and management experience, as well as experience in governance practices.

Edward Travaglianti, age 63, had, until July 2001, been chairman and chief executive officer of European American Bank (“EAB”). Upon the acquisition of EAB by Citibank N.A. (“Citibank”) in 2001, Mr. Travaglianti served as president of Commercial Markets, heading Citibank’s national middle-market and small business activities. He retired in 2002 and in 2004 resumed his banking career as President, Commerce Bank Long Island. With Toronto Dominion Bank’s acquisition of Commerce Bank in 2008, Mr. Travaglianti became and continues to serve as president, TD Bank Long Island. Mr. Travaglianti serves as the chairman of the board and a director of several not-for-profit and health-related organizations. He has been a director of the Company since 2001 and is a member of the audit committee. He has served as Chair of the audit committee since 2003.

As a result of his current experience leading TD Bank Long Island, as well as his previous experiences with EAB and Citibank, Mr. Travaglianti brings significant financial expertise to the board, including with respect to all aspects of financial reporting, accounting, corporate finance and capital markets. In addition, Mr. Travaglianti’s participation on several not-for-profit boards and organizations enables him to bring to the board leadership and management experience, as well as experience in governance practices.

Information required by this item is included in the Proxy Statement under the captions “Proposal 1 - Election of Directors,” “Structure and Practices of the Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated by reference in this report.

(b) Identification of executive officers:

Information regarding executive officers is contained in Part I, Item 1. Business- Executive Officers of The Registrant of this report.

\* \* \*

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The Company has adopted a code of ethics applicable to its chief executive officer, chief financial officer, controller and other employees with important roles in the financial reporting process. The code of ethics is available on the Company's website located at [www.pall.com/policies](http://www.pall.com/policies). In addition, the Company will provide to any person, without charge, upon request, a copy of the code of ethics, by addressing your request in writing to the Corporate Compliance and Ethics Officer, Pall Corporation, 25 Harbor Park Drive, Port Washington, NY, 11050.

The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on the website specified above.

### ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is included in the Proxy Statement under the caption "Executive Compensation," "Director Compensation for Fiscal Year 2011" and "Structure and Practices of the Board-Board Committees" and is incorporated by reference in this report.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is included in the Proxy Statement under the captions "Beneficial Ownership of Common Stock and Restricted Stock Units" and "Executive Compensation-Equity Compensation Plans," and is incorporated by reference in this report.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item is included in the Proxy Statement under the captions "Proposal 1 - Election of Directors," "Structure and Practices of the Board," "Policies and Procedures for Related Person Transactions" and "Related Person Transactions," and is incorporated by reference in this report.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is included in the Proxy Statement under the captions "Audit and Non-Audit Fees" and "Policy on Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services," and is incorporated by reference in this report.

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

## (a) Documents filed as part of the Form 10-K:

## (1) The following items are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets – July 31, 2011 and July 31, 2010

Consolidated Statements of Earnings – years ended July 31, 2011, July 31, 2010 and July 31, 2009

Consolidated Statements of Stockholders' Equity – years ended July 31, 2011, July 31, 2010 and July 31, 2009

Consolidated Statements of Cash Flows – years ended July 31, 2011, July 31, 2010 and July 31, 2009

Notes to consolidated financial statements

## (2) The following financial statement schedule is filed as part of this report:

Schedule II – Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or in the notes thereto.

## (3) Exhibits:

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

## Exhibit Index

## Exhibit

Exhibit Number	Description of Exhibit
3.1(i)*	Restated Certificate of Incorporation of the Registrant as amended through September 1, 2010, filed as Exhibit 3.1(i) to the Registrant's 2010 Form 10-K.
3.1(ii)*	By-Laws of the Registrant as amended through March 16, 2011, filed as Exhibit 3(ii) to the Registrant's Form 8-K filed on March 22, 2011.
4.1(i)*	Indenture dated as of June 15, 2010, by and among the Registrant, as Issuer, and The Bank of New York Mellon, as Trustee, relating to the Registrant's 5.00% Senior Notes due June 15, 2020 filed as Exhibit 4 to the Registrant's Form 8-K filed on June 18, 2010.  The exhibits filed herewith do not include other instruments with respect to long-term debt of the Registrant and its subsidiaries, inasmuch as the total amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees, pursuant to Item 601(b) (4) (iii) of Regulation S-K, that it will furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
10.1(i)*	Five-Year Credit Agreement dated July 13, 2010, between the Registrant and JPMorgan Chase Bank and the Other Lenders Party Thereto, filed as Exhibit 4(ii) to the Registrant's Form 8-K filed on July 19, 2010.
10.1*‡	Amended and Restated Employment Agreement, dated March 4, 2011 between the Registrant and Eric Krasnoff, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on March 10, 2011.
10.2*‡	Employment Agreement dated August 3, 2011 between the Registrant and Lawrence D. Kingsley, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on August 9, 2011.
10.3*‡	Employment Agreement dated August 18, 2010 between the Registrant and Roberto Perez, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on August 24, 2010.
10.4*‡(a)	Mortgage Note by Roberto Perez and Astrid Perez in favor of the Registrant, dated March 2000, filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009.





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10.5*‡	Employment Agreement dated October 1, 2009 between the Registrant and Lisa McDermott, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on October 7, 2009.
10.6*‡	Employment Agreement dated October 1, 2009 between the Registrant and Sandra Marino, filed as Exhibit 10.2 to the Registrant's Form 8-K filed on October 7, 2009.
10.7*‡	Separation Agreement dated as of February 28, 2011 between the Registrant and Sandra Marino, filed as Exhibit 10.2 to the Registrant's Form 8-K filed on March 10, 2011.
10.8*‡	Pall Corporation Supplementary Pension Plan, effective December 31, 2008, filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009.
10.9*‡	Pall Corporation Supplementary Profit-Sharing Plan as amended effective July 19, 2005, filed as Exhibit 10.3 to the Registrant's Form 8-K filed on July 25, 2005.
10.10*‡	Pall Corporation Profit-Sharing Plan as amended and restated as of July 1, 1998, filed as Exhibit 10.15 to the Registrant's 2002 Form 10-K.
10.11*‡	Pall Corporation Profit-Sharing Plan amended pursuant to provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, filed as Exhibit 10.17 to the Registrant's 2003 Form 10-K.
10.12*‡	Pall Corporation 2004 Executive Incentive Bonus Plan, as amended effective November 18, 2009, filed as Appendix A to the Registrant's Proxy Statement filed on October 9, 2009.
10.13*‡	Pall Corporation 1991 Stock Option Plan, as amended effective April 17, 2002, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 27, 2002.
10.14*‡	Pall Corporation 1993 Stock Option Plan, as amended effective April 17, 2002, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 27, 2002.
10.15*‡	Pall Corporation 1995 Stock Option Plan, as amended effective April 17, 2002, filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 27, 2002.
10.16*‡	Pall Corporation 1998 Stock Option Plan, as amended effective April 17, 2002, filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 27, 2002.
10.17*‡	Form of Notice of Grant of Restricted Stock Units Under Pall Corporation 2005 Stock Compensation Plan filed as Exhibit 10.21 to the Registrant's 2010 Form 10-K.
10.18*‡	Form of Notice of Grant of Annual Award Units Under Pall Corporation 2005 Stock Compensation Plan filed as Exhibit 10.22 to the Registrant's 2010 Form 10-K.
10.19*‡	Form of Notice of Grant of Stock Option Grant Agreement Under Pall Corporation 2005 Stock Compensation Plan, filed as Exhibit 10.20 to the Registrant's 2007 Form 10-K.
10.20*‡	Pall Corporation 2005 Stock Compensation Plan, as amended effective November 18, 2009, filed as Appendix D to the Registrant's Proxy Statement filed on October 9, 2009.

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10.21*†	Pall Corporation Stock Option Plan for Non-Employee Directors, as amended effective November 19, 1998, filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1998.
10.22*†	Pall Corporation 2001 Stock Option Plan for Non-Employee Directors, as amended September 17, 2004, filed as Exhibit 10.25 to the Registrant's 2004 Form 10-K.
10.23*†	Pall Corporation Director Deferred Fee Plan, filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2011.
10.24*†	Pall Corporation Management Stock Purchase Plan as amended effective December 15, 2010, filed as Appendix C to the Registrant's Proxy Statement filed on November 10, 2010.
10.25*†	Pall Corporation Employee Stock Purchase Plan as amended effective December 15, 2010, filed as Appendix B to the Registrant's Proxy Statement filed on November 10, 2010.

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10.26*‡	Principal Rules of the Pall Supplementary Pension Scheme, filed as Exhibit 10.25 to the Registrant's 1995 Form 10-K.
12†	Ratio of Earnings to Fixed Charges.
14*	Pall Corporation Code of Ethics applicable to its Chief Executive Officer, Chief Financial Officer, Controller and other employees with important roles in the financial reporting process, filed as Exhibit 99.1 to the Registrant's 2004 Form 10-K.
21†	Subsidiaries of the Registrant.
23†	Consent of Independent Registered Public Accounting Firm.
31.1†	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification of Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

\* Incorporated herein by reference. The Registrant's SEC file number is 001- 04311.

† Filed herewith.

‡ Denotes management contract or compensatory plan or arrangement.

(a) Confidential treatment has been granted for certain information contained in the document. Such information has been omitted and filed separately with the Securities and Exchange Commission.

\*\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for the purposes of section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchanges Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pall Corporation

September 29, 2011

By: /s/ LISA MCDERMOTT

Lisa McDermott,  
Chief Financial Officer and Treasurer

/s/ FRANCIS MOSCHELLA

Francis Moschella,  
Vice President – Corporate Controller  
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ ERIC KRASNOFF Eric Krasnoff	Director, Chief Executive Officer and President	September 29, 2011
/s/ LISA MCDERMOTT Lisa McDermott	Chief Financial Officer and Treasurer	September 29, 2011
/s/ FRANCIS MOSCHELLA Francis Moschella	Vice President – Corporate Controller Chief Accounting Officer	September 29, 2011
/s/ AMY E. ALVING Amy E. Alving	Director	September 29, 2011
/s/ DANIEL J. CARROLL, JR. Daniel J. Carroll, Jr.	Director	September 29, 2011
/s/ ROBERT B. COUTTS Robert B. Coutts	Director	September 29, 2011
/s/ CHERYL W. GRISÉ Cheryl W. Grisé	Director	September 29, 2011
/s/ RONALD L. HOFFMAN Ronald Hoffman	Chairman of the Board and Director	September 29, 2011
/s/ DENNIS N. LONGSTREET Dennis N. Longstreet	Director	September 29, 2011
/s/ EDWIN W. MARTIN, JR. Edwin W. Martin, Jr.	Director	September 29, 2011
/s/ KATHARINE L. PLOURDE Katharine L. Plourde	Director	September 29, 2011
/s/ EDWARD L. SNYDER Edward L. Snyder	Director	September 29, 2011
/s/ EDWARD TRAVAGLIANTI Edward Travagianti	Director	September 29, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Pall Corporation:

We have audited the accompanying consolidated balance sheets of Pall Corporation and subsidiaries as of July 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pall Corporation and subsidiaries as of July 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pall Corporation and subsidiaries' internal control over financial reporting as of July 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 29, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
KPMG LLP

Melville, New York  
September 29, 2011

## PALL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	July 31, 2011	July 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 557,766	\$ 498,563
Accounts receivable	646,769	566,499
Inventories	444,842	415,046
Other current assets	159,831	222,651
Total current assets	1,809,208	1,702,759
Property, plant and equipment	794,599	706,435
Goodwill	290,606	283,822
Intangible assets	61,735	68,827
Other non-current assets	276,268	237,369
Total assets	\$ 3,232,416	\$ 2,999,212
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 214,957	\$ 40,072
Accounts payable	225,398	186,407
Accrued liabilities	294,485	270,244
Income taxes payable	34,531	120,051
Current portion of long-term debt	511	1,956
Dividends payable	20,125	18,475
Total current liabilities	790,007	637,205
Long-term debt, net of current portion	491,954	741,353
Income taxes payable – non-current	175,040	134,851
Deferred income taxes	10,811	7,864
Other non-current liabilities	274,783	295,589
Total liabilities	1,742,595	1,816,862
Stockholders' equity:		
Common stock, par value \$.10 per share; 500,000 shares authorized; 127,958 shares issued	12,796	12,796
Capital in excess of par value	246,665	217,696
Retained earnings	1,619,051	1,394,321
Treasury stock, at cost (2011 – 12,963 shares, 2010 – 12,490 shares)	(483,705)	(412,335)
Stock option loans	(133)	(224)
Accumulated other comprehensive income/(loss):		
Foreign currency translation	207,478	97,249
Pension liability adjustment	(121,831)	(132,577)
Unrealized investment gains	9,500	5,424
	95,147	(29,904)
Total stockholders' equity	1,489,821	1,182,350
Total liabilities and stockholders' equity	\$ 3,232,416	\$ 2,999,212

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See accompanying notes to consolidated financial statements.



PALL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Years Ended		
	July 31, 2011	July 31, 2010	July 31, 2009
Net sales	\$ 2,740,916	\$ 2,401,932	\$ 2,329,158
Cost of sales	1,368,399	1,195,830	1,228,468
Gross profit	1,372,517	1,206,102	1,100,690
Selling, general and administrative expenses	813,446	739,936	699,832
Research and development	86,805	74,944	71,213
Restructuring and other charges, net	33,841	17,664	30,723
Interest expense, net	18,903	14,324	28,136
Loss on extinguishment of debt	—	31,513	—
Earnings before income taxes	419,522	327,721	270,786
Provision for income taxes	104,026	86,473	75,167
Net earnings	\$ 315,496	\$ 241,248	\$ 195,619
Earnings per share:			
Basic	\$ 2.71	\$ 2.05	\$ 1.65
Diluted	\$ 2.67	\$ 2.03	\$ 1.64
Average shares outstanding:			
Basic	116,521	117,437	118,631
Diluted	118,266	118,846	119,571

See accompanying notes to consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

Years Ended July 31, 2009, July 31, 2010 and July 31, 2011	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Stock Option Loans	Accumulated Other Comprehensive Income/(Loss)	Total	Comprehens Inco
Balance at August 1, 2008	\$ 12,796	\$ 178,608	\$ 1,118,616	\$ (290,508)	\$ (450)	\$ 120,173	\$ 1,139,235	
Comprehensive income:								
Net earnings			195,619				195,619	\$ 195,619
Other comprehensive income/(loss):								
Foreign currency translation						(52,414)	(52,414)	(52,414)
Pension liability adjustment						(47,655)	(47,655)	(47,655)
Unrealized investment gains						1,080	1,080	1,080
Unrealized loss on derivatives						(167)	(167)	(167)
Comprehensive income								\$ 96,400
Dividends declared			(67,523)				(67,523)	
Issuance of 981 shares for stock plans and tax benefit related to stock plans								
		(10,872)	(8,977)	32,673			12,824	
Restricted stock units related to stock plans		6,539					6,539	
Stock based compensation expense		23,484					23,484	
Purchase of 3,347 shares				(96,439)			(96,439)	
Stock option loans					15		15	
Balance at July 31, 2009	12,796	197,759	1,237,735	(354,274)	(435)	21,017	1,114,598	
Comprehensive income:								
Net earnings			241,248				241,248	\$ 241,248
Other comprehensive income/(loss):								
Foreign currency translation						(29,766)	(29,766)	(29,766)
Pension liability adjustment						(23,600)	(23,600)	(23,600)
Unrealized investment gains						2,001	2,001	2,001
Unrealized gain on derivatives						444	444	444
Comprehensive income								\$ 190,327
Dividends declared			(74,263)				(74,263)	
Issuance of 1,313 shares for stock plans and tax benefit related to stock plans								
		(9,483)	(10,399)	41,938			22,056	
Restricted stock units related to stock plans		4,804					4,804	
Stock based compensation expense		24,616					24,616	
Purchase of 2,720 shares				(99,999)			(99,999)	
Stock option loans					211		211	
Balance at July 31, 2010	12,796	217,696	1,394,321	(412,335)	(224)	(29,904)	1,182,350	
Comprehensive income:								
Net earnings			315,496				315,496	\$ 315,496
Other comprehensive income/(loss):								
Foreign currency translation						110,229	110,229	110,229
Pension liability adjustment						10,746	10,746	10,746
Unrealized investment gains						4,076	4,076	4,076

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Comprehensive income									\$	440,548
Dividends declared									(80,848)	
Issuance of 2,394 shares for stock plans and tax benefit related to stock plans	(3,439)	(9,918)	78,537						65,180	
Restricted stock units related to stock plans	5,975								5,975	
Stock based compensation expense	26,433								26,433	
Purchase of 2,867 shares							(149,907)		(149,907)	
Stock option loans							91		91	
Balance at July 31, 2011	\$ 12,796	\$ 246,665	\$ 1,619,051	\$ (483,705)	\$ (133)	\$ 95,147	\$ 1,489,821			

See accompanying notes to consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended		
	July 31, 2011	July 31, 2010	July 31, 2009
<b>Operating activities:</b>			
Net earnings	\$ 315,496	\$ 241,248	\$ 195,619
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Restructuring and other charges, net	7,336	976	4,317
Depreciation and amortization of long-lived assets	98,106	93,628	89,439
Non-cash stock compensation	26,433	24,616	23,484
Write-off of deferred financing costs	–	3,245	–
Redemption premium on senior notes	–	28,268	–
Excess tax benefits from stock based compensation arrangements	(12,777)	(2,671)	(457)
Amortization of deferred revenue	(2,154)	(2,154)	(2,154)
Deferred income taxes	10,512	(4,976)	(10,642)
Provisions for doubtful accounts	1,455	1,349	2,864
Other	4,394	1,421	(355)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Inventories	(5,177)	(8,415)	57,147
Accounts receivable	(41,607)	(14,806)	19,954
Income taxes receivable/payable	3,812	(7,368)	656
Accounts payable and accrued expenses	39,324	67,098	(42,071)
Other assets	(6,579)	(23,972)	20,412
Other liabilities	(8,587)	(19,627)	(30,718)
Net cash provided by operating activities	429,987	377,860	327,495
<b>Investing activities:</b>			
Capital expenditures	(160,771)	(136,313)	(133,049)
Purchases of retirement benefit assets	(75,142)	(58,599)	(20,555)
Proceeds from sale of retirement benefit assets	63,222	47,442	18,737
Disposals of fixed assets	1,971	1,603	4,241
Acquisitions of businesses, net of disposals and cash acquired	–	(8,984)	(37,249)
Other	(5,821)	(13,883)	(14,155)
Net cash used by investing activities	(176,541)	(168,734)	(182,030)
<b>Financing activities:</b>			
Long-term borrowings	35,185	798,290	171,010
Repayments of long-term debt	(298,528)	(737,675)	(213,974)
Notes payable	174,600	(2,016)	19,493
Redemption premium on senior notes	–	(28,268)	–
Additions to deferred financing costs	–	(6,311)	–
Purchase of treasury stock	(149,907)	(99,999)	(96,439)
Dividends paid	(77,641)	(71,284)	(64,914)

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Net proceeds from stock plans	60,329	23,929	15,757
Excess tax benefits from stock based compensation arrangements	12,777	2,671	457
Net cash used by financing activities	(243,185)	(120,663)	(168,610)
Cash flow for year	10,261	88,463	(23,145)
Cash and cash equivalents at beginning of year	498,563	414,011	454,065
Effect of exchange rate changes on cash and cash equivalents	48,942	(3,911)	(16,909)
Cash and cash equivalents at end of year	\$ 557,766	\$ 498,563	\$ 414,011
Supplemental disclosures:			
Interest paid	\$ 25,866	\$ 35,611	\$ 40,740
Income taxes paid (net of refunds)	\$ 93,175	\$ 91,871	\$ 84,680

See accompanying notes to consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

NOTE 1 – ACCOUNTING POLICIES AND RELATED MATTERS

The Company

Pall Corporation and its subsidiaries (hereinafter collectively called the “Company” unless the context requires otherwise) manufacture and market filtration, purification and separation products and integrated systems solutions throughout the world to a diverse group of customers. As discussed in Note 18, Segment Information and Geographies, management has determined that the Company’s reportable segments, which are also its operating segments, consist of its two businesses: Life Sciences and Industrial.

The Company’s fiscal year ends on July 31, and the Company’s fiscal quarters end on October 31, January 31 and April 30.

Presentation and Use of Estimates

The financial statements of the Company are presented on a consolidated basis with its subsidiaries, substantially all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial statements of foreign subsidiaries have been translated into United States (“U.S.”) dollars at exchange rates as follows: (i) balance sheet accounts at year-end rates, except equity accounts which are translated at historic rates, and (ii) income statement accounts at weighted average rates. Translation gains and losses are reflected in stockholders’ equity, while transaction gains and losses, which result from the settlement of foreign denominated receivables and payables at rates that differ from rates in effect at the transaction date, are reflected in earnings. Net transaction gains/(losses) inclusive of offsetting gains/(losses) on foreign currency forward contracts in fiscal years 2011, 2010 and 2009 amounted to \$2,087, (\$816) and \$191, respectively, and were recorded in selling, general and administrative expenses.

To prepare the Company’s consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”), management is required to make assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, inventory valuation; provisions for doubtful accounts; asset recoverability; depreciable lives of fixed assets and useful lives of patents and amortizable intangibles; fair value of financial instruments; income tax assets and liabilities; pension valuations; restructuring and other charges; valuation of assets acquired and liabilities assumed in business combinations; allocation of costs to operating segments; revenue recognition and liabilities for items such as contingencies and environmental remediation. The Company is subject to uncertainties such as the impact of future events; economic, environmental and political factors; and changes in the business climate. Therefore, actual results may differ from those estimates. When no estimate in a given range is deemed to be better than any other when estimating contingent liabilities, the low end of the range is accrued. Accordingly, the accounting estimates used in the preparation of the Company’s consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company’s operating environment changes. Changes in estimates are made when circumstances warrant. Such changes and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements.

Cash and Cash Equivalents

All financial instruments purchased with a maturity of three months or less, other than amounts held in the benefits protection trust (as discussed in Note 7, Other Current and Non-Current Assets), are considered cash equivalents.

Inventories

Inventories are valued at the lower of cost (on the first-in, first-out method) or market.



PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Investments

Investments (which include equity interests of less than 20%) are considered available-for-sale securities and, as such, are carried at fair value. Unrealized gains and losses on these securities are reported as a separate component of stockholders' equity until realized from sale or when unrealized losses are deemed by management to be other than temporary. Management considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other than temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the security; and (iii) whether the Company's intent to retain the investment for the period of time is sufficient to allow for any anticipated recovery in market value. Investments are included in "Other non-current assets" in the consolidated balance sheets.

Acquisition Accounting

Acquisitions of businesses are accounted for using the acquisition method of accounting. The acquisition method of accounting requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date and that the fair value of acquired in-process research & development ("IPR&D") be recorded on the balance sheet. Also, transaction costs are expensed as incurred. Any excess of the purchase price over the assigned values of the net assets acquired is recorded as goodwill. When the Company acquires net assets that do not constitute a business under U.S. GAAP, no goodwill is recognized.

Long-Lived Assets

The Company performs detailed impairment testing for goodwill at least annually during the Company's fiscal third quarter, or more frequently if certain events or circumstances indicate impairment might have occurred. The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. The Company's two operating segments, Life Sciences and Industrial, were also determined to be its reporting units. In the first step, the overall fair value for the reporting unit is compared to its book value including goodwill. In the event that the overall fair value of the reporting unit was determined to be less than the book value, a second step is performed which compares the implied fair value of the reporting unit's goodwill to the book value of the goodwill. The implied fair value for the goodwill is determined based on the difference between the overall fair value of the reporting unit and the fair value of the net identifiable assets. If the implied fair value of the goodwill is less than its book value, the difference is recognized as an impairment. In fiscal years 2011 and 2010, the estimated fair values of the Company's reporting units substantially exceeded the carrying values of these reporting units, and as such, the second step was not performed.

The Company's amortizable intangible assets, which are comprised almost entirely of patented and unpatented technology, customer-related intangibles and trademarks, are subject to amortization for periods ranging up to 20 years, principally on a straight-line basis. Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets, principally on the straight-line basis. The estimated useful lives range from 30 to 50 years for buildings, three to ten years for machinery and equipment, three to ten years for information technology hardware and software and eight to ten years for furniture and fixtures. Leasehold improvements are depreciated over the shorter of the remaining life or the remaining lease term.

The Company reviews its depreciable and amortizable long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. If the sum of the expected cash flows, undiscounted, is less than the carrying amount of the asset (or asset group), an impairment loss is recognized as the amount by which the carrying amount of the asset (or asset group) exceeds its fair value.



PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Revenue Recognition

Revenue is recognized when title and risk of loss have transferred to the customer and when contractual terms have been fulfilled, except for certain long-term contracts, whereby revenue is recognized under the percentage of completion method (see below). Transfer of title and risk of loss occurs when the product is delivered in accordance with the contractual shipping terms. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) the Company has previously demonstrated that the product meets the specified criteria based on either seller or customer-specified objective criteria or (ii) upon formal acceptance received from the customer where the product has not been previously demonstrated to meet customer-specified objective criteria.

For contracts accounted for under the percentage of completion method, revenue is based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses.

Stock Plans

The Company currently has four stock-based employee compensation plans (collectively, the "Stock Plans"), which are described more fully in Note 15, Common Stock. The Company records stock-based compensation, measured at the fair value of the award on the grant date, as an expense in the consolidated statements of earnings. Upon the exercise of stock options or the vesting of restricted stock units, the resulting excess tax benefits, if any, are credited to additional paid-in capital. Any resulting tax deficiencies are offset against those cumulative credits to additional paid-in capital. If the cumulative credits to additional paid-in capital are exhausted, tax deficiencies are recorded to the provision for income taxes. Excess tax benefits are reflected as financing cash inflows in the accompanying consolidated statements of cash flows.

Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as facts and circumstances change, assessment and remediation efforts progress or as additional technical or legal information becomes available. Costs of future expenditures for environmental remediation obligations are not discounted to their present value and are expected to be disbursed over an extended period of time. Accruals for environmental liabilities are included in "Accrued liabilities" and "Other non-current liabilities" in the consolidated balance sheets.

Income Taxes

Income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date.

In evaluating the Company's ability to recover deferred tax assets within the jurisdiction from which they arise, management assesses the generation of sufficient taxable income from all sources, including the scheduled reversal of taxable temporary differences, tax-planning strategies and projected future operating income. To the extent the Company does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

When evaluating uncertain tax positions, the Company determines whether the position is more-likely-than-not to be sustained upon examination based upon its technical merits or administrative practices or precedents. Any tax position that meets the more-likely-than-not recognition threshold is measured and recognized in the consolidated financial statements. The amount of tax benefit to be recognized is the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

The Company recognizes accrued interest expense related to unrecognized income tax benefits in interest expense and the balance at the end of a reporting period is recorded in current or non-current interest payable on the Company's consolidated balance sheet. Penalties are accrued as part of the provision for income taxes and the unpaid balance at the end of a reporting period is recorded as part of current or non-current income taxes payable.

For further discussion, refer to Note 11, Income Taxes.

## Earnings Per Share

The consolidated statements of earnings present basic and diluted earnings per share. Basic earnings per share is determined by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share considers the potential effect of dilution on basic earnings per share assuming potentially dilutive securities that meet certain criteria, such as stock options, were outstanding since issuance. The treasury stock method is used to determine the dilutive effect of potentially dilutive securities. Employee stock options and restricted stock units of 467, 1,234 and 2,933 for fiscal years 2011, 2010 and 2009, respectively, were not included in the computation of diluted shares because their effect would have been antidilutive.

The following is a reconciliation between average basic shares outstanding and average diluted shares outstanding:

	2011	2010	2009
Average basic shares outstanding	116,521	117,437	118,631
Effect of dilutive securities (a)	1,745	1,409	940
Average diluted shares outstanding	118,266	118,846	119,571

(a) Refer to Note 15, Common Stock, for a description of the Company's stock plans.

## Derivative Instruments

The Company's derivative instruments are recorded as either assets or liabilities in the consolidated balance sheets based on their fair values. Changes in the fair values are reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For derivatives designated as effective cash flow hedges, changes in fair values are recognized in other comprehensive income/(loss). Changes in fair values related to fair value hedges as well as the ineffective portion of cash flow hedges are recognized in earnings. Changes in the fair value of the underlying hedged item of a fair value hedge are also recognized in earnings. For further discussion, refer to Note 10, Financial Instruments and Risks & Uncertainties.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## Adoption of New Accounting Pronouncement

In October 2009, the Financial Accounting Standards Board (“FASB”) issued updated guidance amending existing revenue recognition accounting pronouncements that address multiple element arrangements. This guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company or other vendors. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. As a result, some companies may recognize revenue on transactions that involve multiple deliverables earlier than under previously existing authoritative guidance. This new authoritative guidance was effective for the Company beginning with its first quarter of fiscal year 2011. The adoption of this authoritative guidance did not have a material impact on the Company’s consolidated financial statements.

## NOTE 2 – RESTRUCTURING AND OTHER CHARGES, NET

The following tables summarize the restructuring and other charges (“ROTC”) recorded in fiscal years 2011, 2010 and 2009:

	Restructuring (1)		Other Charges/(Gains) (2)		Total
<b>2011</b>					
Employment contract obligations and other severance benefits	\$	4,863	\$	7,519	\$ 12,382
Professional fees and other costs, net of receipt of insurance claim payments		5,507		2,293	7,800
Asset impairment		7,336		–	7,336
Environmental matters, net of receipt of insurance claim payment		–		6,349	6,349
Reversal of excess restructuring reserves		(26)		–	(26)
	\$	17,680	\$	16,161	\$ 33,841
<b>Cash</b>	\$	10,344	\$	13,226	\$ 23,570
<b>Non-cash (a)</b>		7,336		2,935	10,271
	\$	17,680	\$	16,161	\$ 33,841
<b>2010</b>					
Severance	\$	6,637	\$	–	\$ 6,637
Environmental matters		–		6,911	6,911
Professional fees and other costs, net of receipt of insurance claim payments		5,581		(691)	4,890
Asset impairment/(gain) on disposal		237		(774)	(537)
Reversal of excess restructuring reserves		(237)		–	(237)
	\$	12,218	\$	5,446	\$ 17,664
<b>Cash</b>	\$	10,639	\$	5,446	\$ 16,085
<b>Non-cash (a)</b>		1,579		–	1,579
	\$	12,218	\$	5,446	\$ 17,664



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

2009	Other		Total
	Restructuring (1)	Charges/(Gains) (2)	
Severance	\$ 18,938	\$ —	\$ 18,938
Professional fees and other costs, net of receipt of insurance claim payments	4,734	13	4,747
Environmental matters, net of receipt of insurance claim payment	—	1,808	1,808
Asset Impairment/loss on disposal	174	3,477	3,651
In-process research and development	—	1,743	1,743
Reversal of excess restructuring reserves	(164)	—	(164)
	\$ 23,682	\$ 7,041	\$ 30,723
Cash	\$ 24,585	\$ 1,821	\$ 26,406
Non-cash	(903)	5,220	4,317
	\$ 23,682	\$ 7,041	\$ 30,723

(a) Includes \$2,935 and \$603 of non-cash stock based compensation costs in fiscal year 2011 and fiscal year 2010, respectively.

## (1) Restructuring:

Restructuring charges reflect the expenses incurred in connection with the Company's cost reduction initiatives. Severance costs and asset impairment charges recorded in fiscal year 2011 relate to the planned closure of manufacturing facilities.

## (2) Other Charges/(Gains):

Employment contract obligations and other severance benefits:

In fiscal year 2011, the Company recorded charges related to certain employment contract obligations.

Professional fees and other:

In fiscal years 2011, 2010 and 2009, the Company recorded legal and other professional fees related to the Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings (see Note 14, Commitments and Contingencies) which pertain to matters that had been under audit committee inquiry as discussed in Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2007 ("2007 Form 10-K"). The receipt of insurance claim payments more than offset such costs in fiscal year 2010 and partly offset such costs in fiscal year 2011.

Environmental matters:

In fiscal years 2011, 2010 and 2009, the Company increased its previously established environmental reserve primarily related to matters in Pinellas Park, Florida and Ann Arbor, Michigan. Such costs in fiscal years 2009 and 2011 were partly offset by the receipt of insurance claim payments.

Asset impairment and gain on sale of assets:

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In fiscal year 2009, the Company recorded a charge of \$1,977 for the deemed to be other-than-temporary diminution in value of certain equity and debt investment securities held by its benefits protection trust and a charge of \$1,500 for the impairment of capitalized software development costs related to discontinued projects.

In fiscal year 2010, the Company recorded a gain of \$774 on the sale of certain equity and debt investment securities held by its benefits protection trust.

In-process research and development:

In fiscal year 2009, the Company recorded a charge of \$1,743 to write off in-process research and development acquired in the acquisition of GeneSystems, SA.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following table summarizes the activity related to restructuring liabilities that were recorded in fiscal years 2011, 2010 and 2009.

	Severance	Other	Total
<b>2011</b>			
Original charge	\$ 4,863	\$ 5,507	\$ 10,370
Utilized	(1,817)	(5,225)	(7,042)
Translation	272	68	340
Balance at Jul. 31, 2011	\$ 3,318	\$ 350	\$ 3,668
<b>2010</b>			
Original charge (a)	\$ 6,034	\$ 5,581	\$ 11,615
Utilized	(2,031)	(5,441)	(7,472)
Translation	1	(9)	(8)
Balance at Jul. 31, 2010	\$ 4,004	\$ 131	\$ 4,135
Utilized	(1,356)	(135)	(1,491)
Translation	2	4	6
Balance at Jul. 31, 2011	\$ 2,650	\$ –	\$ 2,650
<b>2009</b>			
Original charge	\$ 18,938	\$ 4,734	\$ 23,672
Utilized	(12,757)	(4,133)	(16,890)
Translation	412	20	432
Balance at Jul. 31, 2009	6,593	621	7,214
Utilized	(4,902)	(588)	(5,490)
Reversal of excess reserves (b)	(143)	–	(143)
Translation	(86)	(27)	(113)
Balance at Jul. 31, 2010	\$ 1,462	\$ 6	\$ 1,468
Utilized	(845)	(6)	(851)
Reversal of excess reserves (b)	(6)	–	(6)
Translation	120	–	120
Balance at Jul. 31, 2011	\$ 731	\$ –	\$ 731

(a) Excludes stock-based compensation expense of \$603

(b) Reflects the reversal of excess restructuring reserves originally recorded in fiscal year 2009.

## NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	2011	2010
Billed	\$ 553,500	\$ 493,563
Unbilled	101,652	83,740



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Total	655,152	577,303
Less: allowance for doubtful accounts	(8,383)	(10,804)
	\$ 646,769	\$ 566,499

Unbilled receivables principally relate to revenues accrued for long-term contracts recorded under the percentage-of-completion method of accounting.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## NOTE 4 – INVENTORIES

The major classes of inventory, net, are as follows:

	2011	2010
Raw materials and components	\$ 102,745	\$ 97,574
Work-in-process	96,601	76,986
Finished goods	245,496	240,486
	\$ 444,842	\$ 415,046

Certain classes of sub-assembly inventory previously classified as raw materials are now being presented as work-in-process. The impact of the change was an increase in work-in-process with a corresponding decrease in raw materials in fiscal year 2010 of \$27,696.

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2011	2010
Land	\$ 51,588	\$ 48,546
Buildings and improvements	521,419	495,741
Machinery and equipment	835,013	779,700
Information technology hardware & software	202,574	140,626
Furniture and fixtures	94,965	86,925
	1,705,559	1,551,538
Less: Accumulated depreciation and amortization	(910,960)	(845,103)
	\$ 794,599	\$ 706,435

Depreciation expense for property, plant and equipment for fiscal years 2011, 2010 and 2009 was \$84,461, \$81,861 and \$79,420, respectively.

## NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill, allocated by reportable segment.

	2011	2010
Life Sciences	\$ 131,852	\$ 126,854
Industrial	158,754	156,968
	\$ 290,606	\$ 283,822

The change in the carrying amount of goodwill is attributable to changes in foreign exchange rates used to translate the goodwill contained in the financial statements of foreign subsidiaries using the rates at each respective balance sheet date.

Intangible assets consist of the following:

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2011

	Gross	Accumulated Amortization	Net
Patents and unpatented technology	\$ 102,372	\$ 64,921	\$ 37,451
Customer-related intangibles	26,478	6,598	19,880
Trademarks	6,802	4,684	2,118
Other	4,685	2,399	2,286
	\$ 140,337	\$ 78,602	\$ 61,735

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## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

	2010		
	Gross	Accumulated Amortization	Net
Patents and unpatented technology	\$ 99,825	\$ 57,210	\$ 42,615
Customer-related intangibles	26,100	3,511	22,589
Trademarks	6,438	4,196	2,242
Other	3,488	2,107	1,381
	\$ 135,851	\$ 67,024	\$ 68,827

Amortization expense for intangible assets for fiscal years 2011, 2010 and 2009 was \$13,645, \$11,534 and \$9,751, respectively. Amortization expense is estimated to be approximately \$14,468 in fiscal year 2012, \$9,654 in fiscal year 2013, \$7,765 in fiscal year 2014, \$6,254 in fiscal year 2015 and \$5,058 in fiscal year 2016.

## NOTE 7 – OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets consist of the following:

	2011	2010
Deferred income taxes	\$ 67,140	\$ 62,797
Income taxes receivable	6,237	10,262
Prepaid income taxes (a)	5,532	73,664
Prepaid expenses	39,322	31,288
Other receivables	41,600	44,640
	\$ 159,831	\$ 222,651

Other non-current assets consist of the following:

	2011	2010
Deferred income taxes	\$ 97,767	\$ 98,282
Retirement benefit assets (b)	102,152	90,031
Investments (b)	11,779	4,667
Prepaid income taxes	10,828	–
Income taxes receivable	36,469	24,964
Other	17,273	19,425
	\$ 276,268	\$ 237,369

(a) See Note 11, Income Taxes, for further discussion.

(b) Retirement benefit assets are held to satisfy obligations related to certain retirement benefit plans, which provide benefits to eligible employees in Germany and the U.S. Included therein are guaranteed investment contracts of \$20,992 and \$19,753 as of July 31, 2011 and July 31, 2010, respectively. The guaranteed investment contracts were established to pay for supplementary retirement benefits related to plans in Germany. The July 31, 2011 and July 31, 2010 consolidated balance sheets reflect related liabilities in the amounts of \$55,859 and \$52,063, respectively.

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Also included within retirement benefit assets is a benefits protection trust, with assets aggregating \$81,160 and \$70,278 as of July 31, 2011 and July 31, 2010, respectively. The trust was established for the primary purpose of satisfying certain supplemental post-employment benefit obligations in the U.S. for eligible executives in the event of a change of control of the Company. In addition to holding cash equivalents primarily to satisfy short-term cash requirements relating to benefit payments, the trust primarily invests in U.S. and Municipal government obligations, debt obligations of corporations and financial institutions with high credit ratings. Contractual maturity dates of debt securities held by the trust range from 2011 to 2044. Such debt and equity securities are classified as available-for-sale and aggregated \$79,979 and \$69,287 as of July 31, 2011 and July 31, 2010, respectively. The July 31, 2011 and July 31, 2010 consolidated balance sheets reflect retirement benefit assets held in the trust of \$76,000 and \$62,669 that relate to retirement benefit liabilities of \$100,157 and \$86,345, respectively.

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PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Included in investments is the Company's investment in Satair A/S ("Satair") of \$11,044 and \$4,209, at July 31, 2011 and July 31, 2010, respectively, which is classified as available-for-sale.

The following is a summary of the Company's available-for-sale investments by category:

	Cost/ Amortized Cost Basis	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Net Unrealized Holding Gains
<b>2011</b>					
Equity securities	\$ 2,381	\$ 12,064	\$ 9,683	\$ -	\$ 9,683
Debt securities:					
Corporate	36,608	38,505	1,960	(63)	1,897
U.S. Treasury	9,544	10,210	666	-	666
Other U.S. government	27,749	29,089	1,340	-	1,340
Municipal government	1,000	1,002	2	-	2
CMO/mortgage- backed	166	186	20	-	20
	\$ 77,448	\$ 91,056	\$ 13,671	\$ (63)	\$ 13,608
<b>2010</b>					
Equity securities	\$ 2,375	\$ 5,224	\$ 2,849	\$ -	\$ 2,849
Debt securities:					
Corporate	25,769	27,676	1,912	(5)	1,907
U.S. Treasury	17,905	19,209	1,304	-	1,304
Other U.S. government	19,009	20,163	1,159	(5)	1,154
Municipal government	1,000	1,001	1	-	1
CMO/mortgage- backed	230	256	26	-	26
	\$ 66,288	\$ 73,529	\$ 7,251	\$ (10)	\$ 7,241

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale investments with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
<b>2011</b>						
Debt securities:						

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Corporate	\$	3,487	\$	63	\$	–	\$	–	\$	3,487	\$	63
	\$	3,487	\$	63	\$	–	\$	–	\$	3,487	\$	63

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

	Less than 12 months		12 months or greater		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
2010						
Debt securities:						
Other U.S. government	\$ 723	\$ 5	\$ –	\$ –	\$ 723	\$ 5
Corporate	634	5	–	–	634	5
	\$ 1,357	\$ 10	\$ –	\$ –	\$ 1,357	\$ 10

The following table shows the proceeds and gross gains and losses from the sale of available-for-sale investments for the years ended July 31, 2011, July 31, 2010 and July 31, 2009:

	2011	2010	2009
Proceeds from sales	\$ 26,941	\$ 15,375	\$ 11,229
Realized gross gains on sales	949	1,175	497
Realized gross losses on sales	21	38	376

## NOTE 8 – NOTES PAYABLE AND LONG-TERM DEBT

On November 30, 2010, the Company established a commercial paper program under which the Company may issue up to \$600,000 of unsecured commercial paper notes. The Company's board of directors has authorized debt financings through the issuance of commercial paper plus borrowings under the Company's senior revolving credit facility of up to a maximum aggregate amount outstanding at any time of \$600,000. The proceeds of the commercial paper issuances were used for general corporate purposes, including paying down existing balances under the Company's senior revolving credit facility.

As of July 31, 2011, the Company had \$214,957 of outstanding commercial paper, all of which is recorded as current liabilities under notes payable in the Company's consolidated balance sheet. Commercial paper issuances during the year carried interest rates ranging between 0.37% and 0.47% and original maturities between 22 and 61 days.

Long-term debt consists of:

	2011	2010
Senior revolving credit facility, due in fiscal year 2015 (a)	\$ –	\$ 250,000
5% Senior Notes, due in fiscal year 2020, net of discount (b)	373,228	373,027
Japanese Yen (“JPY”) denominated loan, due in fiscal year 2015 (c)	115,803	104,166
Other	3,434	16,116
Total long-term debt	492,465	743,309
Current portion	(511)	(1,956)
Long-term debt, net of current portion	\$ 491,954	\$ 741,353



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- (a) On July 13, 2010, the Company entered into a five-year \$500,000 unsecured senior revolving credit facility (the "New Facility") with a syndicate of banks, which expires on July 13, 2015. The Company terminated the existing \$500,000 senior revolving credit facility, which was originally due in fiscal year 2011 (the "Prior Facility"). Simultaneous with entry into the New Facility, the Company borrowed approximately \$295,000, principally to: (1) redeem all \$280,000 outstanding of the 6.00% Senior Notes originally due in fiscal year 2013 (the "Prior Notes") and, (2) pay a portion of the redemption premium on the Prior Notes of \$28,268 (other funds were used to pay the balance of approximately \$13,268). In connection with the New Facility, the Company incurred deferred financing costs of \$2,856, which are being amortized to interest expense over the term of the New Facility. In addition, the Company wrote-off approximately \$139 of unamortized deferred financing costs related to the Prior Facility, which has been reflected as a loss on the extinguishment of debt. Letters of credit outstanding against the New Facility as of July 31, 2011 were approximately \$8,523.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Borrowings under the new facility bear interest at either a variable rate based upon the London InterBank Offered Rate (U.S. dollar, British Pound, Euro, Swiss Franc and Japanese Yen borrowings) or the European Union Banking Federation Rate (Euro borrowings) or at the prime rate of the Facility Agent (U.S. dollar borrowing only).

The New Facility contains customary affirmative and negative covenants, financial covenants, representations and warranties and events of defaults. The financial covenants are as follows:

- i. Minimum interest coverage ratio: The Ratio of Earnings Before Net Interest, Taxes, Depreciation, Amortization and the Non-Cash Portion of Non-Recurring Charges and Income ("EBITDA") to Net Interest Expense shall not be less than 3.50 to 1.00, computed on the basis of cumulative results for the most recently ended four consecutive quarters.
- ii. Maximum funded debt ratio: The Ratio of Consolidated Funded Debt to EBITDA shall not exceed 3.50 to 1.00, EBITDA computed on the basis of cumulative results for the most recently ended four consecutive quarters.

In addition, the New Facility includes other covenants that under certain circumstances can restrict the Company's ability to incur additional indebtedness, make investments and other restricted payments, enter into sale and leaseback transactions, create liens and sell assets. As of July 31, 2011, the Company was in compliance with all related financial and other restrictive covenants, including limitations on indebtedness, and had no balances outstanding under the New Facility.

- (b) On June 18, 2010, the Company issued \$375,000 of publicly traded 5.00% Senior Notes, due 2020 (the "New Notes"). After the closing of the New Notes, the Company received proceeds (net of the discount on the New Notes of \$2,006 and underwriting fees of \$2,438) of \$370,556. The Company used the net proceeds from this offering principally (1) to repay its then outstanding balance on the Prior Facility, and (2) for general corporate purposes. The Prior Notes, originally due August 1, 2012, were fully redeemed in July 2010 after the satisfaction of a 30-day notice period. In connection with this redemption, the Company recorded a loss on extinguishment of debt totaling \$31,374, primarily comprised of the aforementioned redemption premium and the recognition of previously deferred financing costs related to the Prior Notes. In connection with the New Notes, the Company incurred deferred financing costs of \$3,455, which are being amortized to interest expense over the term of the New Notes.

The notes are unsecured and unsubordinated obligations of the Company and rank pari passu to its other outstanding unsecured and unsubordinated indebtedness.

- (c) On May 26, 2010, the Company refinanced its loan of JPY 9 billion (approximately \$115,803 as of July 31, 2011), which was originally due on June 20, 2010, to May 26, 2015. Under the new financing agreement, interest is fixed at a rate of 2.33%. Previously, the interest payments were at a variable rate based upon Yen LIBOR. The Company designated this borrowing as a non-derivative hedge of a portion of its net JPY investment in a Japanese subsidiary.

The aggregate annual maturities of long-term debt during fiscal years 2012 through 2016 are approximately as follows:

2012	\$	511
2013		473
2014		422
2015		116,206
2016		420

Interest expense, net, for fiscal years 2011, 2010 and 2009 is comprised of:

	2011	2010	2009
Interest expense(i)	\$ 26,055	\$ 19,910	\$ 36,864
Interest income	7,152	5,586	8,728

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Interest expense, net	\$	18,903	\$	14,324	\$	28,136
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- (i) For fiscal years 2011, 2010 and 2009, interest expense was (reduced)/increased by \$(485), \$(6,807) and \$7,684, respectively, related to Income taxes payable. See Note 11, Income Taxes for further discussion.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The weighted average interest rates on notes payable at the end of fiscal years 2011 and 2010 were 0.38% and 0.20%, respectively. The weighted-average borrowing rate was 3.16% and 3.55% as of July 31, 2011 and July 31, 2010, respectively.

As of July 31, 2011, the Company had available unsecured credit facilities, totaling approximately \$178,830, with \$4,034 in compensating balances. These credit facilities provide the Company's foreign subsidiaries with short-term liquidity and overdraft protection, and support various programs (such as guarantee, performance bond and warranty) mandated by customers. At July 31, 2011, there were no borrowings under these facilities. There was \$75,182 outstanding under these credit facilities which were committed to the aforementioned programs.

## NOTE 9 – FAIR VALUE MEASUREMENTS

The Company records certain of its financial assets and liabilities at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The current authoritative guidance discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). Authoritative guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Use of observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Use of inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Use of inputs that are unobservable.

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of July 31, 2011:

	Fair Value Measurements			
	As of Jul. 31, 2011	Level 1	Level 2	Level 3
Financial assets carried at fair value				
Money market funds	\$ 4,575	\$ 4,575	\$ –	\$ –
Available-for-sale securities:				
Equity securities	12,064	12,064		
Debt securities:				
Corporate	38,505	–	38,505	
U.S. Treasury	10,210	–	10,210	
Other U.S. government	29,089	–	29,089	
Municipal government	1,002	–	1,002	
CMO/mortgage-backed	186	–	186	

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Derivative financial instruments:				
Foreign exchange forward contracts	1,456	–	1,456	–
Financial liabilities carried at fair value				
Derivative financial instruments:				
Foreign exchange forward contracts	478	–	478	–

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value as of July 31, 2010:

	As of Jul. 31, 2010	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>Financial assets carried at fair value</b>				
Money market funds	\$ 5,034	\$ 5,034	\$ –	\$ –
<b>Available-for-sale securities:</b>				
Equity securities	5,224	5,224	–	–
<b>Debt securities:</b>				
Corporate	27,676	–	27,676	–
U.S. Treasury	19,209	–	19,209	–
Other U.S. government	20,163	–	20,163	–
Municipal government	1,001	–	1,001	–
CMO/mortgage-backed	256	–	256	–
<b>Derivative financial instruments:</b>				
Foreign exchange forward contracts	2,166	–	2,166	–
<b>Financial liabilities carried at fair value</b>				
<b>Derivative financial instruments:</b>				
Foreign exchange forward contracts	555	–	555	–

The Company's money market funds and equity securities are valued using quoted market prices and, as such, are classified within Level 1 of the fair value hierarchy.

The fair value of the Company's investments in debt securities, have been valued utilizing third party pricing services. The pricing services use inputs to determine fair value which are derived from observable market sources including reportable trades, benchmark curves, credit spreads, broker/dealer quotes, bids, offers, and other industry and economic events. These investments are included in Level 2 of the fair value hierarchy.

The fair value of the Company's foreign currency forward contracts were valued using pricing models, with all significant inputs derived from or corroborated by observable market data such as yield curves, currency spot and forward rates and currency volatilities. These investments are included in Level 2 of the fair value hierarchy.

The Company completed its annual goodwill impairment test for all reporting units as discussed in Note 1, Accounting Policies and Related Matters and determined that no impairment existed. In addition, the Company had no impairment of goodwill in the prior year. In connection with the annual goodwill impairment test, the Company estimates the fair value of its reporting units using a market approach employing Level 3 inputs as defined in the fair value hierarchy.

## NOTE 10 – FINANCIAL INSTRUMENTS AND RISKS &amp; UNCERTAINTIES

As of July 31, 2011, the Company had foreign currency forward contracts outstanding with notional amounts aggregating \$296,252, whose fair values were a net asset of \$978. As discussed in Note 8, Notes Payable and Long-term Debt, the Company refinanced its JPY 9 billion loan during the fourth quarter of fiscal year 2010. In conjunction with this refinancing, the previously existing variable to fixed rate interest rate swap

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that was used to lock in fixed cash outflows on its variable rate JPY 9 billion loan was settled. The Company used this swap to mitigate the associated risk of changes in market interest rates in Japan. As a result, the cumulative unrealized losses that were recorded in accumulated other comprehensive income were reclassified into earnings in fiscal year 2010. Under the new financing agreement, interest is at a fixed rate. The Company designated this borrowing as a non-derivative hedge of a portion of its net JPY investment in a Japanese subsidiary.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company manages certain financial exposures through a risk management program that includes the use of foreign exchange and interest rate derivative financial instruments. Derivatives are executed with counterparties with a minimum credit rating of "A" by Standard & Poors and Moody's Investor Services, in accordance with the Company's policies. The Company does not utilize derivative instruments for trading or speculative purposes.

## Foreign Exchange

## a. Derivatives Not Designated as Hedging Instruments

The risk management objective of holding foreign exchange derivatives is to mitigate volatility to earnings and cash flows due to changes in foreign exchange rates. The Company and its subsidiaries conduct transactions in currencies other than their functional currencies. These transactions include non-functional intercompany and external sales as well as intercompany and external purchases. The Company uses foreign exchange forward contracts, matching the notional amounts and durations of the receivables and payables resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by the changes in fair value of these receivables and payables from fluctuating foreign exchange rates. The notional amount of foreign currency forward contracts entered into during the twelve months ended July 31, 2011 and July 31, 2010 was \$2,403,274 and \$1,427,295, respectively.

## b. Net Investment Hedges

The risk management objective of designating the Company's foreign currency loan as a hedge of a portion of its net investment in a wholly owned Japanese subsidiary is to mitigate the change in the fair value of the Company's net investment due to changes in foreign exchange rates. The Company uses a JPY loan outstanding to hedge its equity of the same amount in the Japanese wholly owned subsidiary. The hedge of net investment consists of a JPY 9 billion loan.

## Interest Rates

## a. Cash Flow Hedges

At July 31, 2011 and July 31, 2010, there were no existing cash flow hedges. See above regarding the settlement of the previously existing variable to fixed rate interest rate swap.

The fair values of the Company's derivative financial instruments included in the consolidated balance sheets are presented as follows:

July 31, 2011	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Not applicable ("NA")				
<b>Derivatives not designated as hedging instruments</b>				
Foreign exchange forward contracts	Other current assets	\$ 1,456	Other current liabilities	\$ 478
<b>Total derivatives</b>				
<b>Nonderivative instruments designated as hedging instruments</b>				
Net investment hedge			Long-term debt, net of current portion	\$ 115,803





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PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

July 31, 2010	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Not applicable ("NA")				
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Other current assets	\$ 2,166	Other current liabilities	\$ 555
Total derivatives		\$ 2,166		\$ 555
Nonderivative instruments designated as hedging instruments				
Net investment hedge			Long-term debt, net of current portion	\$ 104,166

The amounts of the gains and losses related to the Company's derivative financial instruments designated as hedging instruments for the years ended July 31, 2011 and July 31, 2010 are presented as follows:

	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)		Location of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion) (a)	
	Jul. 31, 2011	Jul. 31, 2010		Jul. 31, 2011	Jul. 31, 2010
	Derivatives in cash flow hedging relationships				
Interest rate swap contract	\$ -	\$ 444	Interest expense	\$ -	\$ (1,024)

(a) There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship or related to the amount excluded from the assessment of hedge effectiveness for the twelve months ended July 31, 2011 and July 31, 2010.

The amounts of the gains and losses related to the Company's derivative financial instruments not designated as hedging instruments for the years ended July 31, 2011 and July 31, 2010 are presented as follows:

	Location of Loss Recognized in Earnings on Derivatives	Amount of Loss Recognized in Earnings on Derivatives	
		Jul. 31, 2011	Jul. 31, 2010
Derivatives not designated as hedging relationships			
Foreign exchange forward contracts	Selling, general and administrative expenses	\$ (4,916)	\$ (2,154)

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The amounts of the gains and losses related to the Company's nonderivative financial instruments designated as hedging instruments for the years ended July 31, 2011 and July 31, 2010 are presented as follows:

	Amount of Loss		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss)	
	Recognized in OCI on			Reclassified from	
	Derivatives			Accumulated OCI	
	(Effective Portion)			into Earnings	
	Jul. 31, 2011	Jul. 31, 2010	(Effective Portion)	(Effective Portion) (b)	
				Jul. 31, 2011	Jul. 31, 2010
Nonderivatives designated as hedging relationships					
Net investment hedge	\$ (7,448)	\$ (5,789)	N/A	\$ -	\$ -

(b) There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship or related to the amount excluded from the assessment of hedge effectiveness for the years ended July 31, 2011 and July 31, 2010.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The credit risk related to the interest rate swap and the foreign exchange forwards is considered low because such instruments are entered into only with financial institutions having high credit ratings and are generally settled on a net basis.

The Company's cash and cash equivalents are in high-quality securities placed with a wide array of financial institutions with high credit ratings limiting the Company's exposure to concentration of credit risks.

The Company's products are sold to a diverse group of customers throughout the world. The Company is subject to certain risks and uncertainties as a result of changes in general economic conditions, sources of supply, competition, foreign exchange rates, tax regulatory changes, litigation and other regulatory developments. Management believes the diversity and breadth of the Company's products, markets served and geographic operations mitigate the risk that adverse changes in any one area would materially affect the Company's financial position. Additionally, as a result of the diversity of its customer base, the Company does not consider itself exposed to concentration of credit risks. These customer risks are further minimized by placing credit limits, ongoing monitoring of customers' account balances, and assessment of customers' financial strength.

## NOTE 11 – INCOME TAXES

The components of earnings before income taxes are as follows:

	2011	2010	2009
Domestic operations	\$ 108,072	\$ 15,331	\$ (9,193)
Foreign operations	311,450	312,390	279,979
	\$ 419,522	\$ 327,721	\$ 270,786

The provisions for income taxes consist of the following items:

Current:

Federal, state and local	\$ 18,570	\$ 11,109	\$ 2,843
Foreign	74,944	80,340	82,966
	\$ 93,514	91,449	85,809

Deferred:

Federal, state and local	246	(3,050)	(11,623)
Foreign	10,266	(1,926)	981
	10,512	(4,976)	(10,642)
	\$ 104,026	\$ 86,473	\$ 75,167

A reconciliation of the provisions for income taxes follows:

	2011	2010	2009
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Foreign income and withholding taxes, net of U.S. foreign tax credits	(3.7)	(3.0)	(6.9)
Net unrecognized tax benefit adjustments	(6.0)	(6.4)	(0.5)
Tax credits	(0.9)	(0.2)	(0.9)
Other, net	0.4	1.0	1.1

Effective tax rate	24.8%	26.4%	27.8%
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## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The rate impact for foreign income and withholding taxes, net of U.S. foreign tax credits, reflects the jurisdictional location of earnings, costs of certain repatriation decisions, and uncertain tax positions. The Company operates subsidiaries in Puerto Rico, Switzerland and Singapore which benefit from tax incentives. The Puerto Rico tax incentive grant provides that the Company's manufacturing operations will be partially exempt from local taxes through the end of fiscal year 2013. The Company is currently in the process of negotiating a new tax incentive grant in Puerto Rico. The Switzerland tax incentive grants provide that the Company's profits will be partially exempt from local taxes. These grants expire between fiscal year 2018 and 2020. The Singapore tax incentive grant provides that the Company's profits will be partially exempt from local taxes through the end of fiscal year 2019, with an opportunity to extend ten more years. These tax incentives as compared with the local statutory rates resulted in a reduction of tax expense amounting to \$18,504 in 2011, \$4,903 in 2010 and \$7,421 in 2009.

The rate impact for net unrecognized tax benefit adjustments represents changes in the Company's net liability for unrecognized tax benefits related to tax positions taken in prior-years, including changes in estimates, tax settlements, and lapses of applicable statutes of limitation. In fiscal year 2011, the Company reversed \$22,829 of previously recorded liabilities related to tax and penalties, as well as \$7,333 related to interest (\$4,668 net of income tax cost) that were accrued but not assessed as part of the Internal Revenue Service ("IRS") audits of fiscal years 1999 through 2005. In May 2011, the IRS concluded its audit of these years, including the matter previously disclosed for those years in Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K. In closing the audit, the IRS did not assess any penalties. Additionally, \$70,079 of current prepaid income tax has been reflected as a reduction of current income taxes payable and current interest payable. The Company will not make any further cash payments to the IRS or receive any refunds with respect to these matters. In fiscal year 2010, the Company reversed \$20,602 of previously recorded liabilities related to tax and penalties, as well as \$10,420 related to interest (\$8,938 net of income tax cost) primarily related to the resolution of foreign tax audits and expiring foreign statutes of limitation for assessment of uncertain tax positions.

As of July 31, 2011, the Company has not provided deferred taxes on approximately \$1,101,791 of undistributed foreign subsidiaries' earnings because it intends to invest substantially all such earnings in its foreign operations indefinitely. The additional U.S. and non-U.S. income and withholding taxes that would arise on the reversal of the temporary differences could be offset, in part, by tax credits. Because the determination of the amount of available tax credits and the limitations imposed on the annual utilization of such credits are subject to a highly complex series of calculations and expense allocations, it is impractical to estimate the amount of net income taxes and withholding taxes that might be payable on the remaining pool of undistributed earnings if a reversal of temporary differences occurred.

The components of the net deferred tax asset at July 31, are as follows:

	2011	2010
Deferred tax asset:		
Tax loss and tax credit carry-forwards	\$ 45,375	\$ 41,393
Inventories	22,476	32,954
Compensation and benefits	39,220	37,651
Environmental	5,616	4,714
Accrued expenses	27,123	25,999
Amortization	4,767	6,335
Net pensions	58,245	67,970
Other	31,393	20,492
Gross deferred tax asset	234,215	237,508
Valuation allowance	(22,814)	(23,474)
Total deferred tax asset	211,401	214,034
Deferred tax liability:		
Amortization	(12,213)	(12,549)
Plant and equipment	(29,222)	(25,990)
Revenue recognition	(5,692)	(16,591)

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Undistributed foreign earnings	(7,270)	(3,570)
Other	(4,096)	(2,222)
Total deferred tax liability	(58,493)	(60,922)
Net deferred tax asset	\$ 152,908	\$ 153,112

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PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Deferred tax assets and liabilities in the preceding table, after netting by taxing jurisdiction, are in the following captions in the consolidated balance sheet at July 31:

	2011	2010
Other current assets	\$ 67,140	\$ 62,797
Other non-current assets	97,767	98,282
Accrued liabilities	(1,188)	(103)
Deferred income taxes	(10,811)	(7,864)
Total	\$ 152,908	\$ 153,112

As of July 31, 2011, the Company had available tax net operating loss and tax credit carry forwards subject to expiration as follows:

Year of Expiration	Operating	
	Losses	Tax Credits
2012	\$ —	\$ 153
2013-2021	3,709	16,444
2022-2031	—	6,075
Subtotal	3,709	22,672
Indefinite	89,033	—
Total	\$ 92,742	\$ 22,672

In addition, the Company has various state net operating loss carryforwards that expire in varying amounts through fiscal year 2031.

In evaluating the Company's ability to recover deferred tax assets within the jurisdiction from which they arise, management assesses the generation of sufficient taxable income from all sources, including the scheduled reversal of taxable temporary differences, tax-planning strategies and projected future operating income. To the extent the Company does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. Based on these considerations, management believes it is more likely than not that the Company will realize the benefit of its deferred tax asset, net of the July 31, 2011 valuation allowance.

The following is a tabular reconciliation of the total amounts of gross unrecognized tax benefits:

	2011	2010	2009
Beginning balance	\$ 227,256	\$ 240,683	\$ 242,287
Increases for tax positions taken during the current year	51,327	31,645	17,753
Increases to tax positions taken in prior years	1,516	3,189	8,203
Decreases to tax positions taken in prior years	(13,998)	(31,344)	(16,951)
Settlements with tax authorities	(72,307)	(6,260)	(643)
Expiration of statutes of limitation	(8,662)	(6,785)	—
Translation and other	3,248	(3,872)	(9,966)
Ending balance	\$ 188,380	\$ 227,256	\$ 240,683

Included in the balance of unrecognized tax benefits at July 31, 2011, July 31, 2010, and July 31, 2009 respectively, are \$127,182, \$164,177, and \$158,890 of tax benefits that, if recognized, would affect the effective tax rate.



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During the fiscal year ended July 31, 2011, the amount of gross unrecognized tax benefits decreased primarily due to the resolution of the U.S. federal tax audit covering fiscal years 1999 through 2005 discussed above, and the expiration of certain foreign statutes of limitation.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company files income tax returns in the U.S. and multiple foreign jurisdictions with varying statutes of limitation. In the normal course of business, the Company and its subsidiaries are subject to examination by various taxing authorities. As of July 31, 2011, the Company is subject to U.S. federal and state local income tax examinations for the fiscal tax years ended in 2006 through 2008, and to non-U.S. income tax examinations for the fiscal tax years ended in 2005 through 2009.

During the fiscal year ended July 31, 2011, the Company recorded net earnings from the reversal of interest and penalties of \$15,376 and in total, as of July 31, 2011, has recognized a liability of \$29,652 related to interest and penalties. During fiscal year ended July 31, 2010, the Company recorded net earnings from the reversal of interest and penalties of \$8,992 and in total, as of July 31, 2010, had recognized a liability of \$62,546 related to interest and penalties. During the fiscal year ended July 31, 2009, the Company accrued interest and penalties of \$7,011.

Due to the potential resolution of tax examinations and the expiration of various statutes of limitation, the Company believes that it is reasonably possible that the gross amount of unrecognized tax benefits may decrease within the next twelve months by a range of zero to \$7,019.

## NOTE 12 – ACCRUED AND OTHER NON-CURRENT LIABILITIES

Accrued liabilities consist of the following:

	2011	2010
Payroll and related taxes	\$ 148,063	\$ 128,953
Customer advances	40,203	31,590
Benefits	18,549	15,208
Interest payable	7,257	25,277
Environmental remediation (a)	2,985	3,452
Deferred income taxes	1,188	103
Other	76,240	65,661
	\$ 294,485	\$ 270,244

Other non-current liabilities consist of the following:

	2011	2010
Retirement benefits (b)	\$ 218,395	\$ 243,564
Interest payable – non-current	22,504	20,323
Deferred revenue (c)	7,359	9,513
Environmental remediation (a)	12,301	9,351
Other	14,224	12,838
	\$ 274,783	\$ 295,589

- (a) For further discussion regarding environmental remediation liabilities refer to Note 14, Contingencies and Commitments.
- (b) For discussion regarding retirement benefits refer to Note 13, Pension and Profit Sharing Plans and Arrangements.
- (c) On December 16, 2005, the Company sold the rights to its Western Hemisphere commercial aerospace aftermarket distribution channel for the Company's products for a ten-year period to Satair. The proceeds received for the distribution rights were

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recorded as deferred revenue and are being amortized as an increase to sales over the life of the distribution agreement.

### NOTE 13 – PENSION AND PROFIT SHARING PLANS AND ARRANGEMENTS

#### Defined Benefit Plans

The Company provides substantially all domestic and foreign employees with retirement benefits. Funding policy for domestic plans, which is primarily comprised of a cash balance pension plan, is in accordance with the Employee Retirement Income Security Act of 1974 (“ERISA”); for foreign plans, funding is determined primarily by local tax laws and other regulations. Pension costs charged to operations totaled \$37,133, \$28,541 and \$23,240 in fiscal years 2011, 2010 and 2009, respectively.

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PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Pension Plan Results for Defined Benefit Plans

The following table reflects the change in benefit obligations, change in plan assets and funded status for these plans:

	U.S. Plans		Foreign Plans		Total	
	2011	2010	2011	2010	2011	2010
<b>Change in benefit obligation:</b>						
Benefit obligation - beginning of year	\$ 238,809	\$ 210,575	\$ 365,680	\$ 332,489	\$ 604,489	\$ 543,064
Curtailments and settlements	–	–	(8,832)	(93)	(8,832)	(93)
Service cost	8,058	7,954	5,260	4,868	13,318	12,822
Interest cost	12,264	12,213	18,495	17,684	30,759	29,897
Plan participant contributions	–	–	25	25	25	25
Plan amendments	4	4,053	(2,806)	–	(2,802)	4,053
Actuarial loss	14,425	14,462	3,492	39,936	17,917	54,398
Total benefits paid	(12,069)	(10,448)	(14,506)	(11,657)	(26,575)	(22,105)
Effect of exchange rates	–	–	23,811	(17,572)	23,811	(17,572)
Benefit obligation – end of year	261,491	238,809	390,619	365,680	652,110	604,489
<b>Change in plan assets (a):</b>						
Fair value of plan assets – beginning of year	114,588	95,773	241,883	211,436	356,471	307,209
Curtailments and settlements	–	–	(8,832)	–	(8,832)	–
Actual return on plan assets	14,131	8,845	28,213	24,477	42,344	33,322
Company contributions	24,688	20,418	25,888	26,835	50,576	47,253
Plan participant contributions	–	–	25	25	25	25
Benefits paid from plan assets	(12,069)	(10,448)	(14,506)	(11,657)	(26,575)	(22,105)
Effect of exchange rates	–	–	14,758	(9,233)	14,758	(9,233)
Fair value of plan assets - end of year	141,338	114,588	287,429	241,883	428,767	356,471
Funded status (a)	\$ (120,153)	\$ (124,221)	\$ (103,190)	\$ (123,797)	\$ (223,343)	\$ (248,018)
Accumulated benefit obligation	\$ 240,430	\$ 215,548	\$ 377,910	\$ 355,109	\$ 618,340	\$ 570,657
<b>Plans with accumulated benefit obligations in excess of plan assets consist of the following:</b>						
Accumulated benefit obligation	\$ 240,430	\$ 215,548	\$ 375,368	\$ 354,183	\$ 615,798	\$ 569,731
Projected benefit obligation	261,491	238,809	387,542	364,754	649,033	603,563
Plan assets at fair value	141,338	114,588	284,667	240,774	426,005	355,362

- (a) The Company has certain supplemental defined benefit plans, which provide benefits to eligible executives in the U.S. and employees abroad for which the above tables do not include certain Company assets relating to these plans of \$75,012 and \$61,685 for the U.S. plans and \$20,992 and \$19,753 for the foreign plans as of July 31, 2011 and July 31, 2010, respectively. Liabilities, included in the tables above, related to these plans were \$99,169 and \$85,361 for the U.S. plans and \$55,859 and \$52,063 for the foreign plans as of July 31, 2011 and July 31, 2010, respectively.

U.S. Plans

Foreign Plans

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	2011		2010	
Amounts recognized in the balance sheet consists of:				
Non-current assets	\$	-	\$	-
Current liabilities		(3,746)		(3,328)
Non-current liabilities		(116,407)		(120,893)
Net amount recognized	\$	(120,153)	\$	(124,221)

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Net periodic benefit cost for the Company's defined benefit pension plans includes the following components:

	U.S. Plans			Foreign Plans		
	2011	2010	2009	2011	2010	2009
Service cost	\$ 8,058	\$ 7,954	\$ 8,132	\$ 5,260	\$ 4,868	\$ 4,723
Interest cost	12,264	12,213	12,426	18,495	17,684	16,025
Expected return on plan assets	(8,381)	(8,092)	(8,455)	(14,319)	(13,309)	(13,132)
Amortization of prior service cost	2,142	1,813	1,538	310	256	235
Amortization of actuarial loss	5,826	2,432	1,056	5,702	2,765	701
Gain due to curtailments and settlements	—	—	—	1,776	(43)	(9)
Net periodic benefit cost	\$ 19,909	\$ 16,320	\$ 14,697	\$ 17,224	\$ 12,221	\$ 8,543

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the year ending July 31, 2011 are as follows:

	U.S. Plans	Foreign Plans
Net actuarial loss/(gain)	\$ 8,675	\$ (10,402)
Recognized actuarial loss (including impact of curtailments and settlements)	(5,826)	(7,478)
Prior service cost/(credit)	4	(2,806)
Recognized prior service cost	(2,142)	(310)
Effect of exchange rates on amounts included in accumulated other comprehensive income	—	5,725
Total recognized in other comprehensive (income)/loss, before tax effects	\$ 711	\$ (15,271)
Total recognized in other comprehensive (income)/loss, net of tax effects	\$ 455	\$ (11,201)
Total recognized in net periodic benefit cost and other comprehensive (income)/loss, before tax effects	\$ 20,620	\$ 1,953
Total recognized in net periodic benefit cost and other comprehensive (income)/loss, net of tax effects	\$ 13,197	\$ 362

Amounts recognized in accumulated other comprehensive income (before tax effects) as of July 31, 2011 are as follows:

	U.S. Plans	Foreign Plans	Total
Prior service cost/(credit)	\$ 9,513	\$ (1,716)	\$ 7,797
Net loss	76,451	99,337	175,788
Total amounts recognized in accumulated other comprehensive income	\$ 85,964	\$ 97,621	\$ 183,585

Amounts recognized in accumulated other comprehensive income (before tax effects) as of July 31, 2010 are as follows:

	U.S. Plans	Foreign Plans	Total
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Prior service cost	\$ 11,651	\$ 1,256	\$ 12,907
Net loss	73,602	111,636	185,238
Total amounts recognized in accumulated other comprehensive income	\$ 85,253	\$ 112,892	\$ 198,145

Amounts in accumulated other comprehensive income expected to be amortized as components of net periodic benefit cost during fiscal year 2012 are as follows:

	U.S. Plans	Foreign Plans	Total
Prior service cost/(credit)	\$ 1,779	\$ (134)	\$ 1,645
Net actuarial loss	\$ 7,733	\$ 5,438	\$ 13,171

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## Plan Assumptions

The following table provides the weighted-average assumptions used to determine benefit obligations and net periodic benefit cost:

	U.S. Plans			Foreign Plans		
	2011	2010	2009	2011	2010	2009
Assumptions used to determine benefit obligations						
Discount rate	5.00%	5.25%	6.00%	4.90%	5.00%	5.66%
Rate of compensation increase	4.61%	4.63%	4.66%	3.18%	3.00%	3.01%
Assumptions used to determine net periodic benefit cost						
Discount rate	5.25%	6.00%	6.75%	5.00%	5.66%	5.92%
Expected long-term rate of return on plan assets	7.00%	7.00%	7.00%	5.71%	5.92%	6.33%
Rate of compensation increase	4.63%	4.66%	4.69%	3.00%	3.01%	3.15%

The Company determines its actuarial assumptions on an annual basis. To develop the expected long-term rate of return on plan assets assumption, the Company considers the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based upon the target asset allocation to develop the expected long-term rate of return on plan assets assumption for the portfolio.

## Plan Assets and Investment Policies

The Company's investment objective for defined benefit plan assets is to meet the plans' benefit obligations, while preserving plan assets. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term return and risk. Plan assets are diversified across several investment managers and are generally invested in liquid funds that track broad market equity and bond indices. The target allocations for the plan assets (based on a weighted average) are 50% equity securities, 30% corporate and government securities, 20% to all other types of investments. Equity securities include investments in domestic and international companies. Fixed income securities include corporate bonds of companies from diversified industries and U.S. and foreign government treasury securities. Other types of investments include investments in a limited partnership, insurance contracts, commingled funds (which primarily represent investments in common collective trusts and fund of funds) and a longevity derivative which follow several different strategies. Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, commissioning periodic asset-liability studies, setting long-term strategic targets and monitoring asset allocations.



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following tables present, for each of the fair value hierarchy levels (as defined in Note 9, Fair Value Measurements) the Company's U.S. and Foreign defined benefit net pension plan assets as of July 31, 2011 and July 31, 2010:

	As of Jul. 31, 2011	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>U.S. Plans</b>				
<b>Assets</b>				
<b>Investments</b>				
Equity securities	\$ 77,753	\$ 77,753	\$ -	\$ -
<b>Debt securities:</b>				
Other U.S. government & mortgage/asset-backed	19,070	-	19,070	-
Corporate	16,664	-	16,664	-
U.S. Treasury	6,846	-	6,846	-
<b>Other investments:</b>				
Limited partnership	10,058	-	-	10,058
Commingled funds	13,168	-	13,168	-
Total investments	143,559	77,753	55,748	10,058
Other receivables	388	388	-	-
Total assets	\$ 143,947	\$ 78,141	\$ 55,748	\$ 10,058
<b>Liabilities</b>				
Payables	\$ 2,609	\$ 2,609	\$ -	\$ -
Total liabilities	2,609	2,609	-	-
Net U.S. pension assets	\$ 141,338	\$ 75,532	\$ 55,748	\$ 10,058
<b>Foreign Plans</b>				
Cash equivalents	\$ 455	\$ 455	\$ -	\$ -
Equity securities	126,137	126,137	-	-
<b>Debt securities:</b>				
Corporate	41,544	-	41,544	-
Government bonds	46,414	-	46,414	-
<b>Other investments:</b>				
Commingled funds	51,266	-	39,101	12,165
Insurance contracts	13,631	-	-	13,631
Real estate funds	8,617	-	-	8,617
Total foreign pension assets	\$ 288,064	\$ 126,592	\$ 127,059	\$ 34,413
<b>Liabilities</b>				
Longevity derivative	\$ 635	\$ -	\$ -	\$ 635
Total liabilities	635	-	-	635
Net foreign pension assets	\$ 287,429	\$ 126,592	\$ 127,059	\$ 33,778



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

	As of Jul. 31, 2010	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>U.S. Plans</b>				
<b>Assets</b>				
<b>Investments</b>				
Equity securities	\$ 57,773	\$ 57,773	\$ -	\$ -
<b>Debt securities:</b>				
Other U.S. government & mortgage/asset-backed	16,167	-	16,167	-
Corporate	13,719	-	13,719	-
U.S. Treasury	10,269	-	10,269	-
<b>Other investments:</b>				
Limited partnership	6,794	-	-	6,794
Commingled funds	14,602	-	14,602	-
Total investments	119,324	57,773	54,757	6,794
Other receivables	412	412	-	-
Total assets	\$ 119,736	\$ 58,185	\$ 54,757	\$ 6,794
<b>Liabilities</b>				
Payables	\$ 5,148	\$ 5,148	\$ -	\$ -
Total liabilities	5,148	5,148	-	-
Net U.S. pension assets	\$ 114,588	\$ 53,037	\$ 54,757	\$ 6,794
<b>Foreign Plans</b>				
<b>Assets</b>				
Cash equivalents	\$ 8,260	\$ 8,260	\$ -	\$ -
Equity securities	103,745	103,745	-	-
<b>Debt securities:</b>				
Corporate	40,577	-	40,577	-
Government bonds	28,258	-	28,258	-
<b>Other investments:</b>				
Commingled funds	41,023	-	39,405	1,618
Insurance contracts	12,309	-	-	12,309
Real estate funds	7,711	-	-	7,711
Net foreign pension assets	\$ 241,883	\$ 112,005	\$ 108,240	\$ 21,638

The following tables present an analysis of changes during fiscal year 2011 and fiscal year 2010 in Level 3 plan assets, by plan asset class, for U.S. and Foreign pension plans using significant unobservable inputs to measure fair value:

Fair Value Measurements Using Significant Unobservable Inputs  
(Level 3)

Limited	Commingled	Insurance	Real estate	Longevity
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	partnership	funds	contracts	funds	derivative	Total
Beginning Balance at July 31, 2010	\$ 6,794	\$ 1,618	\$ 12,309	\$ 7,711	\$ –	\$ 28,432
Actual return on plan assets:						
Assets held, end of year	739	324	509	550	(619)	1,503
Assets sold during the period	25			–		25
Purchases, sales, and settlements, net	2,500	9,798	(725)	6		11,579
Exchange rate changes	–	425	1,538	350	(16)	2,297
Ending balance at July 31, 2011	\$ 10,058	\$ 12,165	\$ 13,631	\$ 8,617	\$ (635)	\$ 43,836

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					Total
	Limited partnership	Commingled funds	Insurance contracts	Real estate funds		
Beginning Balance at July 31, 2009	\$ 6,184	\$ 1,698	\$ 13,210	\$ 7,320	\$ 28,412	
Actual return on plan assets:						
Assets held, end of year	610	38	431	839	1,918	
Assets sold during the period	–	5	10	–	15	
Purchases, sales, and settlements, net	–	26	(209)	–	(183)	
Exchange rate changes	–	(149)	(1,133)	(448)	(1,730)	
Ending balance at July 31, 2010	\$ 6,794	\$ 1,618	\$ 12,309	\$ 7,711	\$ 28,432	

The Plan's investments in cash equivalents and equity securities are valued using quoted market prices and, as such, are classified within Level 1 of the fair value hierarchy.

The fair value of the Plan's investments in debt securities, have been valued utilizing third party pricing services. The pricing services use inputs to determine fair value which are derived from observable market sources including reportable trades, benchmark curves, credit spreads, broker/dealer quotes, bids, offers, and other industry and economic events. These investments are included in Level 2 of the fair value hierarchy.

The fair value of the Plan's other investments included in Level 2 of the fair value hierarchy have been reported primarily using the net asset value per share of the investment as the practical expedient for measuring fair value as permitted for these types of investments.

The fair value of the Plan's other investments included in Level 3 of the fair value hierarchy have been valued using unobservable inputs and in some cases are subject to various redemption restrictions.

Other receivables and payables are valued at cost, which approximates fair value.

## Cash Flows

Management's estimate of the Company's cash requirements for the defined benefit plans for the year ending July 31, 2012 is \$20,643. This is comprised of expected benefit payments of \$7,290, which will be paid directly to plan participants from Company assets, as well as expected Company contributions of \$13,353. Expected contributions are dependent on many variables, including the variability of the market value of the assets as compared to the obligation and other market or regulatory conditions. Accordingly, actual funding may differ from current estimates.

The following table provides the pension benefits expected to be paid to participants in the next ten fiscal years, which include payments funded from the Company's assets, as discussed above, as well as payments paid from plan assets:

Expected pension benefit payments	
2012	\$ 24,097
2013	34,814
2014	27,007
2015	29,681
2016	32,328
2017-2021	188,186

Defined Contribution Plans

The Company's 401(k) and profit sharing plan covers substantially all domestic employees of the Company and its participating subsidiaries, other than those employees covered by a union retirement plan. The Plan provides that participants may voluntarily contribute a percentage of their compensation and the Company will make a matching contribution equal to 100% of the first 3% of each participant's contributions. The expense associated with the plan for fiscal years 2011, 2010, and 2009 was \$5,964, \$6,010 and \$6,134, respectively.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company and its subsidiaries also participate in defined contribution pension plans primarily for the benefit of certain foreign employees. The expense associated with these plans was \$14,764, \$12,178 and \$9,544 for fiscal years 2011, 2010 and 2009, respectively.

NOTE 14 – CONTINGENCIES AND COMMITMENTS

With respect to the matters described below under the headings Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings, the Company has assessed the ultimate resolution of these matters and has reflected appropriate contingent liabilities and related insurance recoveries of an equal amount in the consolidated financial statements as of July 31, 2011.

Federal Securities Class Actions:

Four putative class action lawsuits were filed against the Company and certain members of its management team alleging violations of the federal securities laws relating to the Company's understatement of certain of its U.S. income tax payments and of its provision for income taxes in certain prior periods as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K. These lawsuits were filed between August 14, 2007 and October 11, 2007 in the U.S. District Court for the Eastern District of New York. By Order dated May 28, 2008, the Court consolidated the cases under the caption "In re Pall Corp," No. 07-CV-3359 (E.D.N.Y.) (JS) (ARL), appointed a lead plaintiff and ordered that the lead plaintiff file a consolidated amended complaint. The lead plaintiff filed its consolidated amended complaint on August 4, 2008. The lead plaintiff seeks to act as representative for a class consisting of purchasers of the Company's stock between April 20, 2007, and August 2, 2007, inclusive. The consolidated amended complaint names the Company and its current chief executive officer and chief financial officer as defendants and alleges violations of Section 10(b) and 20(a) of the Exchange Act, as amended, and Rule 10b-5 promulgated by the Securities and Exchange Commission. It alleges that the defendants violated these provisions of the federal securities laws by issuing materially false and misleading public statements about the Company's financial results and financial statements, including the Company's income tax liability, effective tax rate, internal controls and accounting practices. The plaintiffs seek unspecified compensatory damages, costs and expenses. The Company moved to dismiss the consolidated amended complaint on September 19, 2008, and filed its reply brief to the lead plaintiff's opposition to the Company's motion to dismiss on December 2, 2008. By Memorandum and Order dated September 21, 2009, the Court denied the Company's motion to dismiss the consolidated amended complaint and granted the lead plaintiff leave to amend the consolidated amended complaint by filing a second amended complaint. On October 9, 2009, the Company moved for certification for interlocutory appeal, and the Court denied the motion by Memorandum and Order entered November 25, 2009. During the fiscal year ended July 31, 2011, discovery resumed and is currently expected to be complete by December 31, 2011. The lead plaintiff has requested that the Court extend the discovery period into 2012.

Shareholder Derivative Lawsuits:

On October 5, 2007, two plaintiffs filed identical derivative lawsuits in New York Supreme Court, Nassau County, relating to the Company's understatement of certain of its U.S. income tax payments and of its provision for income taxes in certain prior periods as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K. These actions purported to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties by failing to evaluate and otherwise inform themselves about the Company's internal controls and financial reporting systems and procedures. In addition, plaintiffs alleged that certain officers of the Company were unjustly enriched as a result of the Company's inaccurate financial results over fiscal years 1999-2006 and the first three quarters of fiscal year 2007. The complaints sought unspecified compensatory damages on behalf of the Company, disgorgement of defendants' salaries, bonuses, stock grants and stock options, equitable relief and costs and expenses. The Company, acting in its capacity as nominal defendant, moved to dismiss the complaints for failure to make a demand upon the Company's board of directors, which motions were granted on April 30 and May 2, 2008. On September 19, 2008, the same two plaintiffs filed a derivative lawsuit in New York Supreme Court, Nassau County, which was served on the Company on September 26, 2008 (the "Saxton Derivative"). This action purports to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties and were unjustly enriched in connection with the tax matter. In addition, the plaintiffs allege that the board's refusal of their demand to commence an action against the defendants was not made in good faith. The plaintiffs and the Company agreed to stay this proceeding pending resolution of the Company's motion to dismiss in the federal securities class action lawsuit related to the tax matter after which resolution the plaintiffs and the Company agreed to confer about a schedule for the defendants' time to answer or otherwise respond to the complaint.

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On September 21, 2009, the United States District Court for the Eastern District of New York denied the Company's motion to dismiss the consolidated amended complaint in the federal securities class action lawsuit. On October 9, 2009, the Company moved for certification for interlocutory appeal in the federal securities class action lawsuit, and the Court denied the motion by Memorandum and Order entered November 25, 2009. The Saxton Derivative is no longer stayed.



PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

On January 10, 2008, a third shareholder filed a derivative lawsuit in the U.S. District Court for the Eastern District of New York. That action, which purported to bring claims on behalf of the Company, alleged breaches of fiduciary duty, unjust enrichment, and insider selling and misappropriation of information by certain directors and officers of the Company. On March 10, 2008, the defendants moved to dismiss on the grounds that the complaint failed to establish that federal subject matter existed over the action. The plaintiff subsequently voluntarily dismissed the action without prejudice.

On November 13, 2008, a fourth shareholder filed a derivative lawsuit in New York Supreme Court, Nassau County, against certain current and former directors and officers of the Company, and against the Company, as nominal defendant, which was served on the Company on December 4, 2008 (the "Hoadley Derivative"). The Hoadley Derivative action purports to bring similar claims as the Saxton Derivative. The plaintiffs and the Company have agreed to an identical stay as in the Saxton Derivative. This action is no longer stayed.

On January 28, 2011, an additional shareholder filed a derivative lawsuit in New York Supreme Court, Nassau County, against certain current and former directors and officers of the Company, and against the Company as nominal defendant (the "Nadoff Derivative"). The action purports to bring claims on behalf of the Company similar to those alleged in the Saxton and Hoadley Derivative actions. The complaint seeks damages, together with various injunctive and declaratory relief. On March 30, 2011, the defendants moved to dismiss or, in the alternative, to stay the last-filed Nadoff derivative action. That motion has been adjourned.

Other Proceedings:

The SEC and U.S. Attorney's Office for the Eastern District of New York conducted investigations in connection with the tax matter described above in fiscal years 2008 and 2009. The Company cooperated with these investigations. Since fiscal year 2010, these proceedings have been inactive.

Environmental Matters:

The Company has environmental matters, discussed below, at the following three U.S. sites: Ann Arbor, Michigan; Pinellas Park, Florida and Glen Cove, New York.

The Company's balance sheet at July 31, 2011 contains environmental liabilities of \$15,286, which relate to the items discussed below. In the opinion of Company management, the Company is in substantial compliance with applicable environmental laws and regulatory orders and its accruals for environmental remediation are adequate at this time.

Ann Arbor, Michigan:

In February 1988, an action was filed in the Circuit Court for Washtenaw County, Michigan (the "Court") by the State of Michigan (the "State") against Gelman Sciences Inc. ("Gelman"), a subsidiary acquired by the Company in February 1997. The action sought to compel Gelman to investigate and remediate contamination near Gelman's Ann Arbor facility and requested reimbursement of costs the State had expended in investigating the contamination, which the State alleged was caused by Gelman's disposal of waste water from its manufacturing process. Pursuant to a consent judgment entered into by Gelman and the State in October 1992 (amended September 1996 and October 1999) (the "Consent Judgment"), which resolved that litigation, Gelman is remediating the contamination without admitting wrongdoing. In February 2000, the State Assistant Attorney General filed a Motion to Enforce Consent Judgment in the Court seeking approximately \$4,900 in stipulated penalties for the alleged violations of the Consent Judgment and additional injunctive relief. Gelman disputed these assertions. Following an evidentiary hearing in July 2000, the Court took the matter of penalties "under advisement." The Court issued a Remediation Enforcement Order requiring Gelman to submit and implement a detailed plan to reduce the contamination to acceptable levels within five years. Gelman's plan has been approved by both the Court and the State. Although groundwater concentrations remain above acceptable levels in much of the affected area, the Court has expressed its satisfaction with Gelman's progress during hearings both before and after the five-year period expired. Neither the State nor the Court has sought or suggested that Gelman should be penalized based on the continued presence of groundwater contamination at the site.

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In February 2004, the Court instructed Gelman to submit its Final Feasibility Study describing how it intends to address an area of groundwater contamination not addressed by the previously approved plan. Gelman submitted its Feasibility Study as instructed. The State also submitted its plan for remediating this area of contamination to the Court. On December 17, 2004, the Court issued its Order and Opinion Regarding Remediation and Contamination of the Unit E Aquifer (the "Order") to address an area of groundwater contamination not addressed in the previously approved plan. Gelman is implementing the requirements of the Order.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In correspondence dated June 5, 2001, the State asserted that stipulated penalties in the amount of \$142 were owed for a separate alleged violation of the Consent Judgment. The Court found that a “substantial basis” for Gelman’s position existed and again took the State’s request “under advisement,” pending the results of certain groundwater monitoring data. That data has been submitted to the Court, but no ruling has been issued.

On August 9, 2001, the State made a written demand for reimbursement of \$227 it has allegedly incurred for groundwater monitoring. On October 23, 2006, the State made another written demand for reimbursement of these costs, which now total \$494, with interest. In February 2007, the Company met with the State to discuss whether the State would be interested in a proposal for a “global settlement” to include, among other matters, the claim for past monitoring costs (\$494). Gelman is engaged in discussion with the State with regard to this demand, however, Gelman considers this claim barred by the Consent Judgment.

By letter dated June 15, 2007, the Michigan Department of Environmental Quality (“MDEQ”) claimed Gelman was in violation of the Consent Judgment and related work plans due to its failure to operate a groundwater extraction well in the Evergreen Subdivision at the approved minimum purge rate. The MDEQ sought to assess stipulated penalties. Gelman filed a Petition for Dispute Resolution with the Court on July 6, 2007 contesting these penalties. Prior to the hearing on Gelman’s petition, the parties met and the MDEQ agreed to waive these penalties in exchange for Gelman’s agreement to perform additional investigations in the area. The Court entered a Stipulated Order to this effect on August 7, 2007. Since then, Gelman has installed several monitoring wells requested by the State. Representatives of Gelman and the State met on December 10, 2007 to discuss the data obtained from these wells and to plan further investigative activities. On April 15, 2008, Gelman submitted two reports summarizing the results of the investigation to date. Gelman also submitted a “capture zone analysis” that confirmed that Gelman was achieving the cleanup objective for the Evergreen Subdivision system. On June 23, 2008, the State provided its response to these reports. The response also addressed outstanding issues regarding several other areas of the site. In its response, the State asked the Company to undertake additional investigation in the Evergreen Subdivision area and in other areas of the site to more fully delineate the extent of contamination. The State also asked the Company to capture additional contaminated groundwater in the Wagner Road area, near the Gelman property, unless the Company can show that it is not feasible to do so. Gelman proposed to the MDEQ several modifications to the Consent Judgment on August 1, 2008 and met with the MDEQ to discuss these modifications (and other outstanding issues) on September 15, 2008. The parties agreed that Gelman would prepare and submit to the MDEQ an outline for modifications to the existing Consent Judgment (and Administrative Orders) by October 15, 2008 and that the parties would meet thereafter to discuss. On April 29, 2009, the Court issued an order that sets forth a schedule for the various steps that must be taken to implement agreed upon modifications to the cleanup program. Pursuant to that schedule, the Company submitted its Comprehensive Proposal to Modify Cleanup Program (the “Proposal”) to the State on May 4, 2009. On June 15, 2009, the State refused to approve the Company’s Proposal. Pursuant to the Court-imposed schedule, the Company filed pleadings identifying areas of dispute and motions seeking approval of its Proposal on August 18, 2009. The MDEQ did not file any pleadings regarding the Company’s Proposal, but did file a motion to enforce the existing Consent Judgment that asks the Court to order the Company to undertake additional response activities with regard to certain portions of the site. The MDEQ’s motion does not seek monetary damages. The Court has not indicated the exact process by which it will resolve these disputes.

The State and the Company have met several times during fiscal year 2010 and in fiscal year 2011 in order to resolve the outstanding disputes. After almost two years of working with the MDEQ to revise the cleanup program, the Washtenaw County Circuit Court approved the third amendment to the Consent Judgment on March 8, 2011.

The reserve established at the end of fiscal year 2010 for the revised global remediation plan contemplated a start date of remediation under the new plan of January 1, 2011, which was then delayed until May 2011. During the fiscal year ended July 31, 2011, \$3,817 was added to the reserve to reflect the current assessment of the future costs based on the final remediation plan. Based on the known situation, Company management has concluded that the current remediation reserve of \$10,692 at July 31, 2011 is appropriate.

Pinellas Park, Florida:

In 1995, as part of a facility closure, an environmental site assessment was conducted to evaluate potential soil and groundwater impacts from chemicals that may have been used at the Company’s Pinellas Park facility during the previous 24-year period of manufacturing and testing operations. Methyl Isobutyl Ketone (“MIBK”) concentrations in groundwater were found to be higher than regulatory levels. Soil excavation was conducted in 1998 and subsequent groundwater sampling showed MIBK concentrations below the regulatory limits.



PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In October 2000, environmental consultants for a prospective buyer of the property found groundwater contamination at the Company's property. In October 2001, a Site Assessment Report conducted by the Company's consultants, which detailed contamination concentrations and distributions, was submitted to the Florida Department of Environmental Protection ("FDEP").

In July 2002, a Supplemental Contamination Assessment Plan and an Interim Remedial Action Plan ("IRAP") were prepared by the Company's consultants and submitted to the FDEP. A revised IRAP was submitted by the Company in December 2003, and it was accepted by the FDEP in January 2004. A Remedial Action Plan ("RAP") was submitted by the Company to the FDEP in June 2004. Final approval by the FDEP of the Company's RAP was received by the Company on August 26, 2006. Pursuant to the approved RAP, the Company began active remediation on the property.

On March 31, 2006, the FDEP requested that the Company investigate potential off-site migration of contaminants. Off-site contamination was identified and the FDEP was notified. On April 13, 2007, the FDEP reclassified the previously approved RAP as an Interim Source Removal Plan ("ISRP") because a RAP can only be submitted after all contamination is defined.

Pursuant to FDEP requirements, the Company installed additional on-site and off-site monitoring wells during fiscal years 2006 through 2009. Additional monitoring wells were installed in fiscal year 2010 and monitoring results provided to the FDEP. Once the delineation has been declared complete by FDEP, the Company will complete and submit a Site Assessment Report ("SAR") Addendum, summarizing the soil and groundwater contamination, delineation and remediation. The primary obstacle for finalizing the SAR is gaining agency agreement that delineation of contamination is complete. Additional delineation work was performed during fiscal year 2011 and additional investigation is scheduled to be performed in September 2011 and October 2011.

The path forward for site closure includes three primary components: (1) finalizing the SAR; targeted for early fiscal year 2012, (2) completing ISRP activities; activities are expected to continue throughout fiscal year 2012 to meet the FDEP source control requirements, and (3) preparing a RAP for agency approval; this task cannot be performed until FDEP approves the SAR. The RAP is expected to be completed early-mid fiscal year 2012.

The ongoing remediation at the site is scheduled to satisfy site closure requirements, which include (1) no free product contaminants, (2) shrinking or stable plumes, and (3) prevention of future exposure of the public or environment. The RAP is contemplated to include a remedy designated as Risk Management Option III (RMO III) which allows off site contamination to naturally attenuate to concentrations determined by FDEP to be safe to humans and the environment. The RMO III requires land use restrictions for those properties on which the natural attenuation process occurs. The FDEP has agreed with the RMO III closure approach. The Company has secured restrictive covenants for the three properties immediate, down gradient and continues negotiation of additional restrictive covenants with the owners of two additional down gradient properties. A local law firm is assisting Company management during negotiations with the owners of adjacent properties regarding the restrictive covenants.

Once the contamination has been delineated and active remediation has stopped, groundwater sampling and analysis must continue for at least the legislative minimum of one year. After groundwater sampling is complete, a closure application will be submitted to FDEP.

Glen Cove, New York:

A March 1994 report indicated groundwater contamination consisting of chlorinated solvents at a neighboring site to the Company's Glen Cove facility, and later reports found groundwater contamination in both the shallow and intermediate zones at the facility. In 1999, the Company entered into an Order on Consent with the New York State Department of Environmental Conservation ("NYSDEC"), and completed a Phase II Remedial Investigation at the Glen Cove facility.

The NYSDEC has designated two operable units ("OUs") associated with the Glen Cove facility. In March 2004, the NYSDEC finalized the Record of Decision ("ROD") for the shallow and intermediate groundwater zones, termed OU-1. The Company signed an Order on Consent for OU-1 effective July 5, 2004, which requires the Company to prepare a Remedial Design/Remedial Action ("RD/RA") Work Plan to address groundwater conditions at the Glen Cove facility.



PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company completed a pilot test involving the injection of a chemical oxidant into on-site groundwater and, on May 31, 2006, submitted a report to NYSDEC entitled "In-Situ Chemical Oxidation Phase II Pilot Test and Source Evaluation Report" (the "Report"). The Report contained data which demonstrated that (1) in general, the pilot test successfully reduced contaminant levels and (2) the hydraulic controls installed on the upgradient Photocircuits Corporation ("Photocircuits") site are not effective and contaminated groundwater continues to migrate from that site. On July 31, 2006, the Company received comments from NYSDEC on the Report. On September 27, 2006, the Company submitted responses to the NYSDEC comments. On November 16, 2006, the Company met with the NYSDEC representatives to discuss the Report and the impact of the continued migration of contaminated groundwater from the upgradient Photocircuits site onto the Glen Cove facility. On January 26, 2007, the Company submitted a draft conceptual remedial design document for the Glen Cove facility to NYSDEC for its technical review.

The Company met with NYSDEC representatives on April 12, 2007 to discuss a possible settlement of liability for OU-1 and for the contamination in the deep groundwater zone, termed OU-2. NYSDEC would not agree to settle OU-2 because a remedial investigation has not been completed. After numerous settlement discussions, the Company and NYSDEC executed on September 23, 2009 a Consent Decree settling liability for OU-1. On October 23, 2009, the Consent Decree was entered by the clerk of the United States District Court for the Eastern District of New York and became effective. Pursuant to the Consent Decree, the Company paid on November 19, 2009 \$2,000 (which was previously accrued) in exchange for a broad release of OU-1 claims and liability. Claims and losses arising out of or in connection with OU-2 or any damages to the State's natural resources are excluded from the settlement. The ROD for OU-2 has been deferred by NYSDEC until additional data is available to delineate contamination and select an appropriate remedy. NYSDEC requested that the Company and Photocircuits enter into a joint Order on Consent for the remedial investigation. Photocircuits was not willing to enter into an Order and the Company was informed by NYSDEC that it would undertake the OU-2 investigation at the Photocircuits property. Photocircuits filed for Chapter 11 bankruptcy in October 2005 and, in or about March 2006, the assets of Photocircuits' Glen Cove facility were sold to American Pacific Financial Corporation ("AMPAC"). AMPAC operated the facility under the Photocircuits name, but closed it on or about April 15, 2007. A Final Decree and Order closing Photocircuits' Chapter 11 bankruptcy case was entered by the U.S. Bankruptcy Court on September 16, 2009 and no distributions were made to general unsecured creditors, which included the Company.

In July 2007, NYSDEC commenced the OU-2 investigation at both the Photocircuits and Pall sites. The Company has retained an engineering consultant to oversee NYSDEC's OU-2 work. NYSDEC's OU-2 investigation is ongoing.

Effective August 14, 2010, the Company and the State entered into a Tolling Agreement pursuant to which the time between August 14, 2010 and January 31, 2012, or such date as the State files suit, will not be included when computing the statute of limitations applicable to the commencement of any action by the State in connection with claims and losses arising out of OU-2 or natural resource damages associated with OU-1 or OU-2.

In the opinion of Company management, the Company is in substantial compliance with applicable environmental laws and its accruals for environmental remediation are adequate at this time. Because regulatory standards under environmental laws are becoming increasingly stringent, there can be no assurance that future developments, additional information and experience gained will not cause the Company to incur material environmental liabilities or costs beyond those accrued in its consolidated financial statements.

Other Commitments and Contingencies:

The Company and its subsidiaries are subject to certain other legal actions that arise in the normal course of business. Other than those legal proceedings and claims discussed above, the Company did not have any current other legal proceedings and claims that would individually or in the aggregate have a reasonably possible materially adverse affect on its financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in several of these legal matters in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

The Company warrants its products against defect in design, materials and workmanship over various time periods. Warranty costs are recorded based upon experience. The warranty accrual as of July 31, 2011 and July 31, 2010 is immaterial to the financial position of the Company as is the change in the accrual for fiscal year 2011 to the Company's consolidated results of operations, cash flows and financial position.





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## PALL CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

As of July 31, 2011, the Company had surety bonds outstanding relating primarily to its long-term contracts with governmental agencies of approximately \$144,478.

The Company and its subsidiaries lease office and warehouse space, automobiles, computers and office equipment. Rent expense for all operating leases amounted to approximately \$33,862 in fiscal year 2011, \$33,601 in fiscal year 2010 and \$31,601 in fiscal year 2009. Future minimum rental commitments at July 31, 2011, for all non-cancelable operating leases with initial terms exceeding one year are \$27,045 in 2012; \$17,827 in 2013; \$12,095 in 2014; \$5,879 in 2015; \$3,822 in 2016 and \$6,238 thereafter.

The Company and its subsidiaries have various non-cancelable purchase commitments for goods or services with various vendors that have terms in excess of one year. Future purchase commitments at July 31, 2011, for the aforementioned purchase commitments are \$91,039 in 2012; \$10,990 in 2013; \$3,545 in 2014, \$404 in 2015, \$302 in 2016 and \$2,033 thereafter.

#### NOTE 15 – COMMON STOCK

##### Stock Repurchase Programs

On October 16, 2008, the board authorized an expenditure of \$350,000 to repurchase shares. Under this program, the Company's shares may be purchased over time, as market and business conditions warrant. There is no time restriction on these authorizations. Total repurchases in fiscal year 2011 were 2,867 shares at an aggregate cost of \$149,907, with an average price per share of \$52.29. The aggregate cost of repurchases in fiscal years 2010 and 2009 was \$99,999 (2,720 shares at an average price per share of \$36.76) and \$96,439 (3,347 shares at an average price per share of \$28.81), respectively. As of July 31, 2011, \$203,037 remains to be expended under the current board repurchase authorizations. Repurchased shares are held in treasury for use in connection with the Company's stock plans and for general corporate purposes.

##### Stock Plans

The Company currently has four stock-based employee and director compensation award types (Stock Option, Restricted Stock Unit ("RSU"), Management Stock Purchase Plan ("MSPP") and the Employee Stock Purchase Plan ("ESPP")), which are described more fully below under the captions Stock Purchase Plans and Stock Option and Restricted Stock Unit Plans. The detailed components of stock-based compensation expense recorded in the consolidated statements of earnings for the years ended July 31, 2011, July 31, 2010 and July 31, 2009 are illustrated in the table below.

	July 31, 2011	July 31, 2010	July 31, 2009
Restricted stock units	\$ 12,651	\$ 11,314	\$ 10,136
Stock options	5,298	4,849	4,627
Employee stock purchase plan ("ESPP")	4,527	4,488	4,939
Management stock purchase plan ("MSPP")	3,957	3,965	3,782
Total	\$ 26,433	\$ 24,616	\$ 23,484

The following table illustrates the income tax effects related to stock-based compensation for the fiscal years:

	2011	2010	2009
Excess tax benefits in cash flows from financing activities	\$ 12,777	\$ 2,671	\$ 457
Tax benefit recognized related to total stock-based compensation expense	8,457	7,159	6,288
Actual tax benefit realized for tax deductions			

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from option exercises of stock-based payment arrangements	23,074	8,301	3,949
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## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following weighted average assumptions were used in estimating the fair value of stock options and ESPP shares granted during the fiscal years using a Black-Scholes-Merton option pricing formula:

	2011	2010	2009
<b>Stock Options</b>			
Weighted average fair value at grant date	\$ 15.78	\$ 10.44	\$ 6.79
<b>Valuation assumptions:</b>			
Expected dividend yield	1.9%	2.0%	1.8%
Expected volatility	36.8%	35.2%	31.9%
Expected life (years)	5	5	5
Risk-free interest rate	1.8%	2.2%	1.8%

	2011	2010	2009
<b>ESPP Shares</b>			
Weighted average fair value at grant date	\$ 11.66	\$ 8.28	\$ 7.99
<b>Valuation assumptions:</b>			
Expected dividend yield	1.5%	1.9%	1.9%
Expected volatility	31.4%	31.3%	56.1%
Expected life (years)	½ year	½ year	½ year
Risk-free interest rate	0.1%	0.2%	0.7%

The Company has placed exclusive reliance on historical volatility in its estimate of expected volatility. The Company used a sequential period of historical data equal to the expected term (or expected life) of the options and ESPP shares granted using a simple average calculation based upon the daily closing prices of the aforementioned period.

The expected life (years) represents the period of time for which the options and ESPP shares granted are expected to be outstanding. This estimate was derived from historical share option exercise experience, which management believes provides the best estimate of the expected term.

The following paragraphs describe each of the aforementioned stock-based compensation plans in detail:

**Stock Purchase Plans**

During fiscal year 2000, the Company's shareholders approved two stock purchase plans, the MSPP and the ESPP. Participation in the MSPP is limited to certain executives as approved by the compensation committee of the board of directors, which also established common stock ownership targets for participants. Participation in the ESPP is available to substantially all employees that are not included in the MSPP.

The purpose of the MSPP is to encourage key employees of the Company to increase their ownership of shares of the Company's common stock by providing such employees with an opportunity to elect to have portions of their total annual compensation paid in the form of restricted units, to make cash purchases of restricted units and to earn additional matching restricted units which cliff vest after four years. Such restricted units aggregated 973 and 1,014 as of July 31, 2011 and July 31, 2010, respectively. As of July 31, 2011, there was \$6,394 of total unrecognized compensation cost related to nonvested restricted stock units granted under the MSPP, which is expected to be recognized over a weighted-average period of 2.5 years.



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following is a summary of MSPP activity during the fiscal years:

	2011	2010	2009
Deferred compensation and cash contributions	\$ 4,351	\$ 3,232	\$ 5,382
Fair value of restricted stock units vested	\$ 4,095	\$ 3,853	\$ 1,757
Vested units distributed	176	200	158

The ESPP enables participants to purchase shares of the Company's common stock through payroll deductions at a price equal to 85% of the lower of the market price at the beginning or end of each semi-annual stock purchase period. The semi-annual offering periods end in April and October. For the years ended July 31, 2011, July 31, 2010 and July 31, 2009, the Company issued 512, 619 and 567 shares at an average price of \$35.09, \$24.59 and \$22.28, respectively.

Both plans provide for accelerated vesting if there is a change in control (as defined in the plans). All of the above shares were issued from treasury stock.

#### Stock Option and Restricted Stock Unit Plans

The Company has adopted several plans that provide for the granting of stock options to employees and non-employee directors at option prices equal to the market price of the common stock at the date of grant. On November 17, 2004, the Company's shareholders approved the 2005 Stock Plan. As a result of such approval, the compensation committee of the board of directors (a) amended the 2001 Stock Option Plan for non-employee directors to reduce the total number of shares remaining available for grants from 261 to 150, and (b) terminated all other stock plans, except that options then outstanding thereunder remained in effect in accordance with their terms. Up to 8,700 shares are issuable under the 2005 Stock Plan. Both plans provide for accelerated vesting if there is a change in control (as defined in the plans). The 2005 Stock Plan permits the Company to grant to its employees and non-employee directors other forms of equity compensation in addition to stock options (that is, restricted shares, restricted units, performance shares and performance units).

The fair value of the restricted unit awards are determined by reference to the closing price of the stock on the date of the award, and are charged to earnings over the service periods during which the awards are deemed to be earned; four years, in the case of units awarded to employees and upon grant, in the case of the annual award units to non-employee directors. The annual award units granted to non-employee directors of the Company (and any related dividends paid in the form of additional units) are converted to shares once the director ceases to be a member of the board of directors. A total of 25 and 34 annual award units were granted during the years ended July 31, 2011 and July 31, 2010, respectively, with weighted-average fair market values of \$49.81 and \$36.69 per share, respectively. Restricted stock units granted to employees cliff-vest after the fourth anniversary of the date of grant. Dividends on unvested restricted stock units vest at the same time as the restricted units for which the dividends were recorded and are forfeitable if the participant does not vest in the original award.

A summary of restricted stock unit activity, excluding annual award units, for the 2005 Stock Plan during the year ended July 31, 2011, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at August 1, 2010	1,232	\$ 35.38
Granted	235	55.31
Vested	(191)	44.10
Forfeited	(57)	34.01

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Nonvested at July 31, 2011	1,219	\$	37.92
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As of July 31, 2011 there was \$27,075 of total unrecognized compensation cost related to nonvested restricted stock units granted under the 2005 Stock Plan, which is expected to be recognized over a weighted-average period of 2.9 years.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The forms of options adopted provide that the options may not be exercised within one year from the date of grant, and expire if not completely exercised within seven years from the date of grant. Generally, in any year after the first year, the options can be exercised with respect to only up to 25% of the shares subject to the option, computed cumulatively. The Company's shareholders have approved all of the Company's stock plans.

A summary of option activity for all stock option plans during the year ended July 31, 2011 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at August 1, 2010	3,849	\$ 29.75		
Granted	216	54.94		
Exercised	(1,555)	26.67		
Forfeited or Expired	(67)	27.31		
Outstanding at July 31, 2011	2,443	\$ 34.01	4.0	\$ 39,203
Expected to vest at July 31, 2011	1,028	\$ 37.89	5.3	\$ 13,116
Exercisable at July 31, 2011	1,386	\$ 30.94	3.0	\$ 25,824

As of July 31, 2011, there was \$7,833 of total unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of 2.6 years. The total intrinsic value of options exercised during the years ended July 31, 2011, July 31, 2010 and July 31, 2009 was \$39,583, \$5,628 and \$1,387, respectively. The intrinsic value is the result of multiplying shares by the amount by which the current market value of the underlying stock exceeds the exercise price of the option.

As of July 31, 2011, approximately 4,856 shares of common stock of the Company were reserved for stock-based compensation plans (approximately 2,102 shares are reserved for vested awards and approximately 2,754 shares are reserved for unvested awards). The Company currently uses treasury shares that have been repurchased through the Company's stock repurchase program to satisfy share award exercises.

## NOTE 16 – INCENTIVE COMPENSATION PLANS

The plans provide additional compensation to officers and key employees of the Company and its subsidiaries based upon the achievement of specified goals. The compensation committee of the board of directors establishes the goals on which the Company's executive officers are compensated, and management establishes the goals for other covered employees. The aggregate amounts charged to expense in connection with the plans were \$32,328, \$27,350 and \$19,857 for fiscal years 2011, 2010 and 2009, respectively.

## NOTE 17 – OTHER COMPREHENSIVE INCOME (LOSS)

The Company has elected to report comprehensive income in the consolidated statements of stockholders' equity. The changes in the components of other comprehensive income (loss) are as follows:

	Pretax Amount	Tax Effect	Net Amount
2011			
Foreign currency translation	\$ 101,553	\$ 8,676	\$ 110,229
Pension liability adjustment	14,560	(3,814)	10,746

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Unrealized investment gains (a)	6,368	(2,292)	4,076
Other comprehensive income	\$ 122,481	\$ 2,570	\$ 125,051

2010

Foreign currency translation	\$ (31,167)	\$ 1,401	\$ (29,766)
Pension liability adjustment	(34,519)	10,919	(23,600)
Unrealized investment gains (a)	2,692	(691)	2,001
Unrealized gains on derivatives	688	(244)	444
Other comprehensive loss	\$ (62,306)	\$ 11,385	\$ (50,921)



## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

2009			
Foreign currency translation	\$	(50,115)	\$ (2,299) \$ (52,414)
Pension liability adjustment		(69,293)	21,638 (47,655)
Unrealized investment gains (a)		958	122 1,080
Unrealized losses on derivatives		(256 )	89 (167 )
Other comprehensive loss	\$	(118,706)	\$ 19,550 \$ (99,156)

(a) The unrealized gains (losses) on available-for-sale securities, net of related taxes, consisted of the following:

	2011	2010	2009
Net unrealized gains/(losses) arising during the period, net of tax (expense)/benefit of \$(2,292), \$(691) and \$122 in 2011, 2010 and 2009, respectively	\$ 4,076	\$ 4,880	\$ (958)
Realized gain included in net earnings for the period	–	(2,879)	–
Adjustment for unrealized loss included in net earnings due to impairment	–	–	2,038
Other comprehensive income	\$ 4,076	\$ 2,001	\$ 1,080

## NOTE 18 – SEGMENT INFORMATION AND GEOGRAPHIES

The Company serves customers through two global businesses: Life Sciences and Industrial.

The Life Sciences business group is focused on developing, manufacturing and selling products to customers in the Medical, BioPharmaceuticals and Food & Beverage markets. The Industrial business group is focused on developing, manufacturing and selling products to customers in the Aeropower, Microelectronics and Energy & Water markets. The chief executive officer manages the Company and makes key decisions about the allocation of Company resources based on the two businesses. The Company's reportable segments, which are also its operating segments, consist of its two businesses, Life Sciences and Industrial.

The Business Groups are supported by shared facilities and personnel ("Shared Services Group") in the Company's subsidiaries that sell into both Life Sciences and Industrial markets. The Shared Services Group and Corporate Services Group facilitate the Company's corporate governance and business activities globally. Expenses associated with the Corporate Services Group, as well as interest expense, net, the provision for income taxes and restructuring and other charges are excluded from the measurement and evaluation of the profitability of the Company's reportable segments.

Cash and cash equivalents, short-term investments, investments and retirement benefit assets and income taxes, all of which are managed at the Corporate level, are included in Corporate/Shared Services Groups' assets. Furthermore assets not specifically identified to a business are also included in Corporate/Shared Services Groups' assets. Accounts receivable and inventory are in all cases specifically identified to a business.

## PALL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

SEGMENT INFORMATION:	2011	2010	2009
<b>SALES:</b>			
Life Sciences	\$ 1,407,863	\$ 1,237,835	\$ 1,166,275
Industrial	1,333,053	1,164,097	1,162,883
Total	\$ 2,740,916	\$ 2,401,932	\$ 2,329,158
<b>OPERATING PROFIT:</b>			
Life Sciences	337,600	280,089	234,055
Industrial	195,791	164,544	152,068
Total segment profit	533,391	444,633	386,123
Corporate Services Group	61,125	53,411	56,478
Operating profit	472,266	391,222	329,645
ROTC	33,841	17,664	30,723
Interest expense, net	18,903	14,324	28,136
Loss on extinguishment of debt	—	31,513	—
Earnings before income taxes	\$ 419,522	\$ 327,721	\$ 270,786
<b>DEPRECIATION AND AMORTIZATION:</b>			
Life Sciences	\$ 57,282	\$ 54,882	\$ 51,838
Industrial	38,585	36,922	36,170
Subtotal	95,867	91,804	88,008
Corporate Services Group	2,239	1,824	1,431
Total	\$ 98,106	\$ 93,628	\$ 89,439
<b>CAPITAL EXPENDITURES:</b>			
Life Sciences	\$ 55,313	\$ 59,882	\$ 73,915
Industrial	41,361	32,175	42,033
Subtotal	96,674	92,057	115,948
Corporate/Shared Services Groups	64,097	44,256	17,101
Total	\$ 160,771	\$ 136,313	\$ 133,049
<b>IDENTIFIABLE ASSETS:</b>			
Life Sciences	\$ 1,097,616	\$ 1,068,697	
Industrial	1,011,778	903,740	
Subtotal	2,109,394	1,972,437	
Corporate/Shared Services Groups	1,123,022	1,026,775	
Total	\$ 3,232,416	\$ 2,999,212	
<b>GEOGRAPHIC INFORMATION:</b>			
<b>SALES:</b>			
Western Hemisphere	\$ 917,109	\$ 789,361	\$ 769,702
Europe	1,055,075	945,952	960,307
Asia	768,732	666,619	599,149

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Total	\$	2,740,916	\$	2,401,932	\$	2,329,158
<b>IDENTIFIABLE ASSETS:</b>						
Western Hemisphere	\$	1,108,943	\$	1,098,019		
Europe		695,297		621,959		
Asia		375,283		304,671		
Eliminations		(70,129)		(52,212)		
Subtotal		2,109,394		1,972,437		
Corporate/Shared Services Groups		1,123,022		1,026,775		
Total	\$	3,232,416	\$	2,999,212		

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Sales by the Company's U.S. operations to unaffiliated customers totaled approximately \$846,000, \$733,000 and \$715,000 in fiscal years 2011, 2010 and 2009, respectively. Included therein are export sales of approximately \$56,000, \$43,300 and \$86,000 in fiscal years 2011, 2010 and 2009, respectively. Sales by the Company's subsidiaries in the Euro-zone amounted to approximately \$725,000, \$665,000 and \$672,000 in fiscal years 2011, 2010 and 2009, respectively. No country in the Eurozone was individually material as a percentage of total Company sales in fiscal years 2011, 2010 and 2009. Sales by the Company's subsidiary in Japan amounted to approximately \$257,000, \$230,000 and \$214,000 in fiscal years 2011, 2010 and 2009, respectively. The Company considers its foreign operations to be of major importance to its future growth prospects. The risks related to the Company's foreign operations include the local political and regulatory developments as well as the regional economic climate.

PALL CORPORATION AND SUBSIDIARIES

FINANCIAL STATEMENT SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at Beginning of Year	Additions to Reserve	Write-offs	Translation Adjustments	Balance at End of Year
Allowance for doubtful accounts:					
Year Ended:					
July 31, 2011	\$ 10,804	\$ 1,455	\$ (3,471)	\$ (405)	\$ 8,383
July 31, 2010	\$ 10,602	\$ 1,349	\$ (825)	\$ (322)	\$ 10,804
July 31, 2009	\$ 10,929	\$ 2,864	\$ (2,584)	\$ (607)	\$ 10,602