PALL CORP
Form 10-Q
June 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended April 30, 2007

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number: 1- 4311
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.)
2200 Northern Boulevard, East Hills, NY	**11548**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares of the registrant s common stock outstanding as of June 4, 2007 was 122,597,865.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	Apr. 30, 2007	July 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 364,672	$ 317,657
Accounts receivable	512,673	517,632
Inventories	473,418	408,273
Prepaid expenses	35,100	25,259
Other current assets	108,539	108,160
Total current assets	1,494,402	1,376,981
Property, plant and equipment, net	584,440	620,979
Goodwill	246,837	246,476
Intangible assets	48,955	51,477
Other non-current assets	254,062	256,945
Total assets	$ 2,628,696	$ 2,552,858
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 45,037	$ 35,821
Accounts payable and other current liabilities	442,049	399,950
Income taxes payable	51,610	67,484
Current portion of long-term debt	26,630	27,561
Total current liabilities	565,326	530,816
Long-term debt, net of current portion	540,499	640,015
Deferred taxes and other non-current liabilities	214,472	203,331
Total liabilities	1,320,297	1,374,162
Stockholders equity:		
Common stock, par value $.10 per share	12,796	12,796
Capital in excess of par value	153,562	137,165
Retained earnings	1,244,505	1,151,044
Treasury stock, at cost	(161,290)	(156,775)
Stock option loans	(678)	(1,311)
Accumulated other comprehensive income (loss):		
Foreign currency translation	129,745	107,133
Minimum pension liability	(73,084)	(73,084)

Unrealized investment gains	2,910	1,949
Unrealized losses on derivatives	(67)	(221)
	59,504	35,777
Total stockholders equity	1,308,399	1,178,696
Total liabilities and stockholders equity	$ 2,628,696	$ 2,552,858

See accompanying notes to condensed consolidated financial statements.

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PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**
Net sales	$ 559,347	$ 509,981	$ 1,603,565	$ 1,419,579
Cost of sales	282,227	271,388	846,303	753,491
Gross profit	277,120	238,593	757,262	666,088
Selling, general and administrative expenses	167,677	157,407	493,255	466,250
Research and development	15,656	14,511	45,167	41,975
Restructuring and other charges/(gains), net	8,620	7,313	22,060	10,999
Interest expense, net	4,260	5,091	14,894	16,472
Earnings before income taxes	80,907	54,271	181,886	130,392
Provision for income taxes	13,833	29,082	34,575	47,657
Net earnings	$ 67,074	$ 25,189	$ 147,311	$ 82,735
Earnings per share:				
Basic	$ 0.54	$ 0.20	$ 1.20	$ 0.66
Diluted	$ 0.54	$ 0.20	$ 1.18	$ 0.66
Dividends declared per share	$ 0.12	$ 0.11	$ 0.35	$ 0.32
Average shares outstanding:				
Basic	123,399	125,614	123,110	125,243
Diluted	124,781	126,581	124,662	126,121

See accompanying notes to condensed consolidated financial statements.

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PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	Apr. 30, 2007	**Apr. 30, 2006**
Operating activities:		
Net cash provided by operating activities	$ 213,554	$ 151,667
Investing activities:		
Capital expenditures	(54,086)	(72,784)
Proceeds from sale of retirement benefit assets	18,965	26,769
Purchases of retirement benefit assets	(18,397)	(44,844)
Proceeds from sale of strategic investments		7,387
Disposals of long lived assets	44,609	6,564
Acquisitions of businesses, net of disposals and cash acquired	(406)	(75)
Other	(3,810)	(2,140)
Net cash used by investing activities	(13,125)	(79,123)
Financing activities:		
Notes payable	6,474	2,247
Dividends paid	(41,521)	(38,611)
Net proceeds from stock plans	36,612	26,795
Purchase of treasury stock	(51,016)	(5,750)
Long-term borrowings	627	139
Repayments of long-term debt	(116,903)	(21,331)
Excess tax benefits from stock-based compensation arrangements	4,794	723
Net cash used by financing activities	(160,933)	(35,788)
Cash flow for period	39,496	36,756
Cash and cash equivalents at beginning of year	317,657	164,928
Effect of exchange rate changes on cash and cash equivalents	7,519	5,675
Cash and cash equivalents at end of period	$ 364,672	$ 207,359
Supplemental disclosures:		
Interest paid	$ 30,478	$ 25,790
Income taxes paid (net of refunds)	41,630	45,294
Non-cash transactions:		
Note receivable		2,539

See accompanying notes to condensed consolidated financial statements.

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)
(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The condensed consolidated financial information included herein is unaudited. Such information reflects all adjustments of a normal recurring nature, which are, in the opinion of Company management, necessary to present fairly the Company s consolidated financial position, results of operations and cash flows as of the dates and for the periods presented herein. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes set forth in the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2006 (2006 Form 10-K).

Segment operating profit for fiscal year 2006 has been restated to conform to the current year presentation. Refer to Note 13 for further discussion.

NOTE 2 ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which requires entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods financial statements, unless this would be impracticable. SFAS No. 154 supersedes Accounting Principles Board (APB) Opinion No. 20, Accounting Changes (APB No. 20), which previously required that most voluntary changes in accounting principle be recognized by including in the current period s net earnings the cumulative effect of changing to the new accounting principle. SFAS No. 154 also makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. Another significant change in practice under SFAS No. 154 is that if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under APB No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 was effective for the Company beginning with its first quarter of fiscal year 2007. The adoption of SFAS No. 154 did not have a material impact on the Company s condensed consolidated financial statements.

In June 2006, the EITF reached a consensus on EITF No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF No. 06-3). EITF No. 06-3 provides that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the entity s accounting policy, which should be disclosed pursuant to APB Opinion No. 22, Disclosure of Accounting Policies. The Company adopted EITF No. 06-3 in the third quarter of fiscal year 2007. The Company will continue to present taxes within the scope of EITF No. 06-3 on a net basis. As such, the adoption of EITF No. 06-3 did not have any effect on the Company s consolidated financial statements.

NOTE 3 BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

	Apr. 30, 2007	July 31, 2006
Accounts receivable:		
Billed	$ 479,275	$ 483,205
Unbilled	45,725	46,329
Total	525,000	529,534
Less: Allowances for doubtful accounts	(12,327)	(11,902)
	$ 512,673	$ 517,632

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

	Apr. 30, 2007	July 31, 2006
Inventories:		
Raw materials and components	$ 138,862	$ 130,731
Work-in-process	87,843	66,259
Finished goods	246,713	211,283
	$ 473,418	$ 408,273

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

	Apr. 30, 2007	July 31, 2006
Property, plant and equipment:		
Property, plant and equipment	$ 1,339,173	$ 1,341,906
Less: Accumulated depreciation and amortization	(754,733)	(720,927)
	$ 584,440	$ 620,979

NOTE 4 GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill, net of accumulated amortization recorded prior to adopting SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), allocated by reportable segment, in accordance with SFAS No. 142. For a discussion regarding a change in the Company s reportable segments, refer to Note 13.

	Apr. 30, 2007	July 31, 2006
Life Sciences	$ 69,326	$ 67,554
Industrial	177,511	178,922
	$ 246,837	$ 246,476

The change in the carrying amount of goodwill is primarily attributable to additional consideration paid related to a prior acquisition in India, as well as 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 partially offset by the reversal of certain tax allowances.

Intangible assets, net, consist of the following:

		Apr. 30, 2007	
	Gross	Accumulated Amortization	Net
Patents and unpatented technology	$ 81,802	$ 35,558	$ 46,244
Trademarks	4,781	2,575	2,206
Other	3,372	2,867	505
	$ 89,955	$ 41,000	$ 48,955

		July 31, 2006	
	Gross	Accumulated Amortization	Net
Patents and unpatented technology	$ 78,579	$ 30,232	$ 48,347
Trademarks	4,648	2,261	2,387
Other	3,361	2,618	743
	$ 86,588	$ 35,111	$ 51,477

Amortization expense for intangible assets for the three and nine months ended April 30, 2007 was $2,038 and $6,101, respectively. Amortization expense for intangible assets for the three and nine months ended April 30, 2006 was $1,935 and $6,337, respectively. Amortization expense is estimated to be approximately $2,057 for the remainder of fiscal 2007, $7,195 in 2008, $6,484 in 2009, $6,247 in 2010, $6,034 in 2011 and $5,797 in 2012.

PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

NOTE 5 TREASURY STOCK

On October 17, 2003, the Board of Directors (the Board) authorized the expenditure of $200,000 to repurchase shares of the Company s common stock and on October 14, 2004, authorized an additional expenditure of $200,000 to repurchase shares. At July 31, 2006, there was $160,027 available to be expended under these authorizations. On November 15, 2006, the Board authorized an additional expenditure of $250,000 to repurchase shares. During the nine months ended April 30, 2007, the Company purchased 1,356 shares in open-market transactions at an aggregate cost of $51,016 with an average price per share of $37.63. At April 30, 2007, approximately $359,011 remained available to be expended under the current stock repurchase programs. The Company s shares may be purchased over time, as market and business conditions warrant. There is no time restriction on these authorizations. Repurchased shares are held in treasury for use in connection with the Company s stock-based compensation plans and for general corporate purposes.

During the nine months ended April 30, 2007, 1,714 shares were issued under the Company s stock-based compensation plans. At April 30, 2007, the Company held 5,441 treasury shares.

NOTE 6 CONTINGENCIES AND COMMITMENTS

The Company s condensed consolidated balance sheet at April 30, 2007 includes liabilities for environmental matters of approximately $18,729, which relates primarily to the previously reported environmental proceedings involving a Company subsidiary, Gelman Sciences Inc., pertaining to groundwater contamination. In the opinion of management, the Company is in substantial compliance with applicable environmental laws and its current accruals for environmental remediation are adequate. However, as 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 condensed consolidated financial statements.

NOTE 7 RESTRUCTURING AND OTHER CHARGES/(GAINS), NET

The following tables summarize the restructuring and other charges/(gains) (ROTC) recorded for the three and nine months ended April 30, 2007 and April 30, 2006:

	Three Months Ended Apr. 30, 2007			Nine Months Ended Apr. 30, 2007		
	Restructuring (1)	Other Charges/(Gains) (2)	Total	Restructuring (1)	Other Charges/(Gains) (2)	Total
Severance	$ 5,411	$	$ 5,411	$ 20,136	$	$ 20,136
Gain on sale and impairment of assets, net	1,898		1,898	(3,216)		(3,216)
Other exit costs	1,245		1,245	2,066		2,066
Environmental matters (2a)		200	200		2,761	2,761
Other		(4)	(4)	1,117	971	2,088
	$ 8,554	$ 196	$ 8,750	$ 20,103	$ 3,732	$ 23,835
Reversal of excess reserves	(130)		(130)	(1,775)		(1,775)
	$ 8,424	$ 196	$ 8,620	$ 18,328	$ 3,732	$ 22,060

Cash	$ 6,526	$ 196	$ 6,722	$ 13,181	$ 3,732	$ 16,913
Non-cash	1,898		1,898	5,147		5,147
	$ 8,424	$ 196	$ 8,620	$ 18,328	$ 3,732	$ 22,060

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended Apr. 30, 2006			Nine Months Ended Apr. 30, 2006		
	Restructuring (1)	Other Charges/(Gains) (2)	Total	Restructuring (1)	Other Charges/(Gains) (2)	Total
Severance	$ 6,580	$	$ 6,580	$ 11,181	$	$ 11,181
Other exit costs	164		164	2,528		2,528
Gain on sale of investments (2b)					(2,200)	(2,200)
Loss on sale of assets	6		6	57		57
Environmental (2a)		793	793		793	793
Other		60	60		(59)	(59)
	$ 6,750	$ 853	$ 7,603	$ 13,766	$ (1,466)	$ 12,300
Reversal of excess reserves	(290)		(290)	(1,301)		(1,301)
	$ 6,460	$ 853	$ 7,313	$ 12,465	$ (1,466)	$ 10,999
Cash	$ 6,454	$ 853	$ 7,307	$ 12,181	$ (1,342)	$ 10,839
Non-cash	6		6	284	(124)	160
	$ 6,460	$ 853	$ 7,313	$ 12,465	$ (1,466)	$ 10,999

(1) Restructuring:

In connection with the acquisition of the Filtration and Separations Group (FSG) in fiscal year 2002, Company management began formulating integration plans and identifying synergistic opportunities. The study led to a much broader initiative to examine the overall structure of the Company and the manner in which it conducted business activities with the objective of increasing revenue growth and achieving cost reduction. This resulted in a series of restructuring activities that have been ongoing since that time, including the realignment of the overall business structure as described in Note 13, which commenced at the end of fiscal year 2004, and the Company s facilities rationalization initiative and European cost reduction (EuroPall) initiative, which commenced in fiscal year 2006.

Three and Nine Months Ended April 30, 2006:

The Company continued its realignment plan and cost reduction initiatives, including its facilities rationalization and EuroPall initiatives. As a result, the Company recorded severance liabilities for the termination of certain employees worldwide as well as other costs related to these initiatives.

Three and Nine Months Ended April 30, 2007:

The Company continued its cost reduction initiatives, including its facilities rationalization and EuroPall initiatives. As a result, the Company recorded severance liabilities for the termination of certain employees worldwide as well as other costs related to these initiatives.

In the three months and nine months ended April 30, 2007, the Company recorded impairment charges of $1,898 and $7,670, respectively related to the planned disposal of buildings and the early retirement of certain long-lived assets, as part of the Company s facilities rationalization initiative. The nine months ended April 30, 2007, also includes a gain on the sale of the Company s corporate headquarters of $10,886 which was recorded in the three months ended January 31, 2007.

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

The following table summarizes the activity related to restructuring liabilities that were recorded in fiscal years 2007, 2006 and 2005:

	Severance	Lease Termination Liabilities & Other	Total
2007			
Original charge (a)	$ 19,379	$ 2,066	$ 21,445
Utilized	(3,786)	(1,169)	(4,955)
Other changes (b)	573	7	580
Balance at Apr. 30, 2007	$ 16,166	$ 904	$ 17,070
2006			
Original charge	$ 13,335	$ 3,043	$ 16,378
Utilized	(7,221)	(2,900)	(10,121)
Other changes (b)	182	9	191
Balance at July 31, 2006	6,296	152	6,448
Utilized	(2,238)	(93)	(2,331)
Reversal of excess reserves (c)	(1,031)	(31)	(1,062)
Other changes (b)	116	2	118
Balance at Apr. 30, 2007	$ 3,143	$ 30	$ 3,173
2005			
Original charge	$ 17,496	$ 2,928	$ 20,424
Utilized	(8,404)	(2,739)	(11,143)
Other changes (b)	(86)	4	(82)
Balance at July 31, 2005	9,006	193	9,199
Utilized	(3,243)	(87)	(3,330)
Reversal of excess reserves (c)	(1,905)	(96)	(2,001)
Other changes (b)	57	3	60
Balance at July 31, 2006	3,915	13	3,928
Utilized	(2,280)		(2,280)
Reversal of excess reserves (c)	(713)		(713)
Other changes (b)	30	1	31

Balance at Apr. 30, 2007	$ 952	$ 14	$ 966

(a) Excludes $757 related to pension liabilities.

(b) Other changes primarily reflect translation impact.

(c) Reflects the reversal of excess restructuring reserves originally recorded in fiscal years 2005 and 2006.

(2) Other Charges/(Gains):

(a) Environmental Matters:

In the three months ended April 30, 2006, the Company recorded additional charges of $793 to increase its previously established environmental reserves primarily related to environmental matters in Ann Arbor, Michigan and Pinellas Park, Florida.

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

In the three and nine months ended April 30, 2007, the Company recorded additional charges of $200 and $2,761, respectively, to increase its previously established environmental reserves primarily related to environmental matters in Ann Arbor, Michigan and Pinellas Park, Florida.

(b) Investments:

In August 2005, the Company sold all of the 617.5 shares it held of Panacos Pharmaceuticals, Inc., formerly known as V.I. Technologies, Inc., for total proceeds aggregating $6,783. The cost basis at the time of the sale, as adjusted by previous impairment charges, was $4,940. As a result, the Company recorded a gain of $1,806, net of fees and commissions, in the three months ended October 31, 2005.

On January 13, 2006, the Company sold its stock rights in Satair for total proceeds aggregating $641. The cost basis of the rights at the time of the sale was $247. As a result, the Company recorded a gain of $394 in the three months ended January 31, 2006.

NOTE 8 PROVISION FOR INCOME TAXES

The Company s effective tax rate for the nine months ended April 30, 2007 and 2006 was 19.0% and 36.5%. The decrease in the effective tax rate was primarily due to the refinement of prior estimates of income tax liabilities, including amounts relating to the repatriation of foreign subsidiary earnings, as well as the availability of research credits in both the United States of America and the United Kingdom. In addition, the Company recorded tax expense of $17,000 during the nine months ended April 30, 2006 related to the tax effect of the repatriation of foreign subsidiary earnings.

The Company s effective tax rate may change year to year based on recurring factors such as the geographical mix of income in tax jurisdictions that have a broad range of enacted tax rates, the timing and amount of foreign dividends, state and local taxes, the ratio of permanent items to pretax book income and the implementation of various global tax strategies, as well as nonrecurring factors.

NOTE 9 COMPONENTS OF NET PERIODIC PENSION COST

The Company provides substantially all domestic and foreign employees with retirement benefits. Net periodic pension benefit cost for the Company s defined benefit pension plans includes the following components:

	Three Months Ended					
	U.S. Plans		**Foreign Plans**		**Total**	
	Apr. 30, 2007	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**
Service cost	$ 1,952	$ 1,877	$ 909	$ 1,667	$ 2,861	$ 3,544
Interest cost	2,759	2,367	4,126	3,345	6,885	5,712
Expected return on plan assets	(2,125)	(1,572)	(3,280)	(2,642)	(5,405)	(4,214)
Amortization of prior service cost	275	238	154	109	429	347
Amortization of net transition asset	(10)	(10)			(10)	(10)
Recognized actuarial loss	578	715	2,174	1,955	2,752	2,670
Loss due to curtailments and settlements				317		317
Net periodic benefit cost	$ 3,429	$ 3,615	$ 4,083	$ 4,751	$ 7,512	$ 8,366

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

	Nine Months Ended					
	U.S. Plans		Foreign Plans		Total	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
Service cost	$ 5,856	$ 5,633	$ 2,711	$ 5,883	$ 8,567	$ 11,516
Interest cost	8,279	7,103	12,153	9,843	20,432	16,946
Expected return on plan assets	(6,373)	(4,716)	(9,669)	(7,648)	(16,042)	(12,364)
Amortization of prior service cost	825	714	458	339	1,283	1,053
Amortization of net transition asset	(32)	(32)			(32)	(32)
Recognized actuarial loss	1,736	2,143	6,404	5,937	8,140	8,080
Loss due to curtailments and settlements				317		317
Net periodic benefit cost	$ 10,291	$ 10,845	$ 12,057	$ 14,671	$ 22,348	$ 25,516

NOTE 10 STOCK-BASED PAYMENT

The Company applies the provisions of SFAS No. 123(R), Share-Based Payment, which establishes the accounting for employee stock-based awards. The Company currently has four stock-based employee and directors compensation plans (Stock Option Plans, Management Stock Purchase Plan (MSPP), Employee Stock Purchase Plan (ESPP) and Restricted Stock Unit Plans) which are described under the caption Stock Plans in the Accounting Policies and Related Matters footnote of the Company s 2006 Form 10-K.

The detailed components of stock-based compensation expense recorded in the condensed consolidated statements of earnings for the three and nine months ended April 30, 2007 and April 30, 2006 are illustrated in the table below.

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
Stock options	$ 795	$ 1,496	$ 3,203	$ 4,517
Restricted stock units	1,016	650	3,840	1,703
ESPP	1,376	590	2,136	1,563
MSPP	461	316	1,763	986
Total	$ 3,648	$ 3,052	$ 10,942	$ 8,769

The following table illustrates the income tax effects related to stock-based compensation.

	Three Months Ended		Nine Months Ended	
	Apr. 30,	Apr. 30,	Apr. 30,	Apr. 30,

	2007	2006	2007	2006
Excess tax benefit in cash flows from financing activities	$1,875	$ 415	$4,794	$ 723
Tax benefit recognized related to total stock-based compensation expense	406	556	1,824	1,576
Actual tax benefit realized for tax deductions from option exercises of stock-based payment arrangements	1,965	1,669	6,340	3,462

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

A summary of option activity for all stock option plans during the nine months ended April 30, 2007 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at August 1, 2006	3,794	$ 21.39		
Granted	3	26.59		
Exercised	(196)	19.39		
Forfeited or Expired	(31)	21.16		
Outstanding at October 31, 2006	3,570	21.50	5.7	$ 27,553
Granted	310	34.03		
Exercised	(572)	18.17		
Forfeited or Expired	(14)	20.93		
Outstanding at January 31, 2007	3,294	23.26	5.5	$ 37,878
Granted				
Exercised	(359)	19.66		
Forfeited or Expired	(1)	23.78		
Outstanding at April 30, 2007	2,934	$ 23.70	5.2	$ 53,559
Expected to vest at April 30, 2007	945	$ 29.76	6.0	$ 11,514
Exercisable at April 30, 2007	1,942	$ 20.65	4.9	$ 41,363

As of April 30, 2007, there was $5,988 of total unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of 2.9 years. The total intrinsic value of options exercised during the three and nine months ended April 30, 2007 was $6,637 and $17,808, respectively. The total intrinsic value of options exercised during the three and nine months ended April 30, 2006 was $3,758 and $6,952, respectively.

The following weighted average assumptions were used in estimating the fair value of stock options granted during the nine months ended April 30, 2007 and April 30, 2006 (there were no stock options granted during the three months ended April 30, 2007 and April 30, 2006):

	Nine Months Ended Apr. 30, 2007	Nine Months Ended Apr. 30, 2006
Average fair value of stock-based compensation awards granted	$8.84	$ 7.43
Valuation assumptions:		
Expected dividend yield	1.9%	1.9%

Expected volatility	26.0%	27.0%
Expected life (years)	5.0	5.0
Risk-free interest rate	4.7%	4.3%

The fair value of the options is estimated using a Black-Scholes-Merton option-pricing formula and amortized to expense over the options service periods. 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 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 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.

PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

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 vest over a three year period for matches prior to August 1, 2003 and vest over a four year period for matches made thereafter. Such restricted units aggregated 799 and 715 as of April 30, 2007 and April 30, 2006, respectively. As of April 30, 2007, there was $4,589 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 2.9 years.

The following is a summary of MSPP activity during the three and nine months ended April 30, 2007 and April 30, 2006:

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
Deferred compensation and cash contributions	$	$	$2,967	$ 3,165
Fair value of restricted stock units vested	$102	$	$ 257	$ 497
Vested units distributed	1		75	58

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. A total of 264 and 265 shares were issued under the ESPP during the semi-annual stock purchase periods ended April 30, 2007 and April 30, 2006, respectively. A total of 233 and 207 shares were issued under the ESPP during the semi-annual stock purchase periods ended October 31, 2006 and October 31, 2005, respectively.

A summary of restricted stock unit activity, related to employees, for the 2005 Stock Plan during the nine months ended April 30, 2007, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at August 1, 2006	513	$ 28.15
Granted	2	26.59
Vested		
Forfeited	(9)	28.73
Nonvested at October 31, 2006	506	28.14
Granted	65	34.07
Vested		
Forfeited	(5)	28.11
Nonvested at January 31, 2007	566	28.81
Granted		
Vested	(1)	28.98
Forfeited	(3)	28.64

Nonvested at April 30, 2007	562	$	28.81

As of April 30, 2007, there was $10,977 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.

No annual award units of restricted stock were granted to non-employee directors of the Company during the three months ended April 30, 2007. Non-employee directors of the Company were granted 19 annual award units of restricted stock during the nine months ended April 30, 2007, with a weighted-average fair market value of $33.65 per share.

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

The Company currently uses treasury shares that have been repurchased through the Company s stock repurchase program to satisfy share award exercises.

NOTE 11 EARNINGS PER SHARE

The condensed consolidated statements of earnings present basic and diluted earnings per share. Basic earnings per share is determined by dividing income available to common shareholders 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 shares that meet certain criteria, such as those issuable upon exercise of stock options, were outstanding. The treasury stock method reduces the dilutive effect of potentially dilutive securities as it assumes that cash proceeds (from the issuance of potentially dilutive securities) are used to buy back shares at the average share price during the period. Employee stock options and units aggregating 290 and 725 shares were not included in the computation of diluted shares for the three months ended April 30, 2007 and April 30, 2006, respectively, because their effect would have been antidilutive. For the nine months ended April 30, 2007 and April 30, 2006, 721 and 845 antidilutive shares were excluded. The following is a reconciliation between basic shares outstanding and diluted shares outstanding:

	Three Months Ended		**Nine Months Ended**	
	Apr. 30, 2007	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**
Basic shares outstanding	123,399	125,614	123,110	125,243
Effect of stock plans	1,382	967	1,552	878
Diluted shares outstanding	124,781	126,581	124,662	126,121

NOTE 12 COMPREHENSIVE INCOME

	Three Months Ended		**Nine Months Ended**	
	Apr. 30, 2007	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**
Net income	$ 67,074	$ 25,189	$ 147,311	$ 82,735
Unrealized translation adjustment	13,539	19,045	20,783	25,440
Income taxes	1,661	519	1,829	159
Unrealized translation adjustment, net	15,200	19,564	22,612	25,599
Change in unrealized investment gains	427	33	2,528	2,099
Income taxes	(150)		(1,567)	
Change in unrealized investment gains, net	277	33	961	2,099
Unrealized gains (losses) on derivatives	117	(97)	127	(302)
Income taxes	7	(17)	27	(30)

Unrealized gains (losses) on derivatives, net	124	(114)	154	(332)
Total comprehensive income	$ 82,675	$ 44,672	$ 171,038	$ 110,101

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PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

Unrealized investment gains on available-for-sale securities, net of related taxes, consist of the following:

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
Unrealized gains arising during the period	$ 427	$ 33	$ 2,209	$ 3,905
Income taxes	(150)		(1,567)	
Net unrealized gains arising during the period	277	33	642	3,905
Reclassification adjustment for losses (gains) included in net earnings			319	(1,806)
Change in unrealized investment gains, net	$ 277	$ 33	$ 961	$ 2,099

NOTE 13 SEGMENT INFORMATION

During fiscal year 2005, the Company undertook to reorganize its business structure into three underlying vertically integrated businesses: Life Sciences, comprising Medical and BioPharmaceuticals markets; Aeropower, comprising Aerospace and the Machinery & Equipment portion of the current General Industrial marketplace; and Process Technologies, comprising General Industrial s Food & Beverage, Fuels & Chemicals, Power Generation, Municipal Water and Microelectronics markets. In fiscal year 2006, management began a further integration of the Industrial markets (Aeropower and Process Technologies) to form one vertically integrated Industrial business. In the first quarter of fiscal year 2007, the reorganization was completed. Each business now has full responsibility for its global manufacturing, sales and marketing, and research and development functions, enabling the Company to better meet its customers needs and achieve greater efficiencies and profit growth. This revised organizational structure is in contrast to the former matrix organizational structure where, within each geography, these functions supported the market-based part of the matrix on a shared basis (as opposed to being directly vertically integrated into these businesses).

The Company s financial reporting systems have been converted to support the new organizational structure, providing financial information consistent with how the financial results of the businesses will be measured. Additionally, certain of the internal segment financial reporting principles utilized in the measurement and evaluation of the profitability of the Company s businesses (such as the allocation of shared overhead costs) have been revised for consistency with the underlying reorganized structure of the Company. Senior management of the Company, including the Company s chief executive officer, manage the Company and make key decisions about the allocation of Company resources based on the two businesses. The Company s sales subsidiaries sell both Life Sciences and Industrial products. As such, certain overhead costs of these subsidiaries have been, and will continue to be, shared by the businesses.

Consistent with the new corporate structure, management has determined that the Company s reportable segments, that are also its operating segments, consist of its two vertically integrated businesses, Life Sciences and Industrial, in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

PALL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share data)
(Unaudited)

The following table presents sales and operating profit by segment for the three and nine months ended April 30, 2007 and April 30, 2006.

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
SALES:				
Life Sciences	$ 229,044	$ 205,937	$ 633,981	$ 562,751
Industrial	330,303	304,044	969,584	856,828
Total	$ 559,347	$ 509,981	$ 1,603,565	$ 1,419,579
OPERATING PROFIT (a):				
Life Sciences	$ 50,121	$ 40,968	$ 116,345	$ 91,084
Industrial	54,246	36,408	135,908	97,335
Total operating profit	104,367	77,376	252,253	188,419
General corporate expenses	(10,203)	(10,368)	(30,520)	(29,717)
Earnings before ROTC, interest expense, net and income taxes (b)	94,164	67,008	221,733	158,702
ROTC (b)	(8,997)	(7,646)	(24,953)	(11,838)
Interest expense, net	(4,260)	(5,091)	(14,894)	(16,472)
Earnings before income taxes	$ 80,907	$ 54,271	$ 181,886	$ 130,392

(a) Operating profit for the three and nine months ended April 30, 2006 has been restated in accordance with the Company s new organizational structure including the aforementioned changes in certain internal segment financial reporting principles.

(b) Included in ROTC for the purposes of evaluation of segment profitability are other adjustments recorded in cost of sales. For the three and nine months ended April 30, 2007, such adjustments include incremental depreciation and other adjustments of $377 and $2,893, respectively, recorded in conjunction with the Company s facilities rationalization initiative. Furthermore, such adjustments include a charge of $566 for the nine months ended April 30, 2007 and $333 and $839 for the three and nine months ended April 30, 2006, respectively, related to a one-time purchase accounting adjustment to record, at market value, inventory acquired from BioSepra. This resulted in a $2,431 increase in acquired inventories in accordance with SFAS No. 141, Business Combinations (SFAS No. 141), and a charge to cost of sales in the periods when the sale of a portion of the underlying inventory occurred. The adjustment is excluded from operating profit as management considers it non-recurring in nature because, although the Company acquired the manufacturing operations of BioSepra, this adjustment was required by SFAS No. 141 as an elimination of the manufacturing profit in inventory acquired from BioSepra and subsequently sold.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements and Risk Factors

You should read the following discussion together with the condensed consolidated financial statements and notes thereto and other financial information in this Form 10-Q and in the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2006. The discussions regarding sales under the subheading Review of Operating Segments below are in local currency unless otherwise indicated. Company management considers local currency growth an important measure because by excluding the volatility of exchange rates, underlying volume growth 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 matters discussed in this Quarterly Report on Form 10-Q contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on current Company expectations and are subject to risks and uncertainties, which could cause actual results to differ materially. All statements regarding future performance, earnings projections, earnings guidance, events or developments are forward-looking statements. Such risks and uncertainties include, but are not limited to: changes in product mix and product pricing particularly as we expand our systems business in which we experience significantly longer sales cycles and less predictable revenue with no certainty of future revenue streams from related consumable product offerings and services; increases in costs of manufacturing and operating costs including energy and raw materials; the Company s ability to achieve the savings anticipated from cost reduction and margin improvement initiatives including the timing of completion of the facilities rationalization initiative; fluctuations in foreign currency exchange rates and interest rates; regulatory approval and market acceptance of new technologies; changes in business relationships with key customers and suppliers including delays or cancellations in shipments; success in enforcing patents and protecting proprietary products and manufacturing techniques; successful completion or integration of acquisitions; domestic and international competition in the Company s global markets; and global and regional economic conditions, and legislative, regulatory and political developments. The Company makes these statements as of the date of this report and undertakes no obligation to update them.

Business Reorganization

During fiscal year 2005, the Company undertook to reorganize its business structure into three underlying vertically integrated businesses: Life Sciences, comprising Medical and BioPharmaceuticals markets; Aeropower, comprising Aerospace and the Machinery & Equipment portion of the current General Industrial marketplace; and Process Technologies, comprising General Industrial s Food & Beverage, Fuels & Chemicals, Power Generation, Municipal Water and Microelectronics markets. In fiscal year 2006, management began a further integration of the Industrial markets (Aeropower and Process Technologies) to form one vertically integrated Industrial business. In the first quarter of fiscal year 2007, the reorganization was completed. Each business now has full responsibility for its global manufacturing, sales and marketing, and research and development functions, enabling the Company to better meet its customers needs and achieve greater efficiencies and profit growth. This revised organizational structure is in contrast to the former matrix organizational structure where, within each geography, these functions supported the market-based part of the matrix on a shared basis (as opposed to being directly vertically integrated into these businesses).

The Company s financial reporting systems have been converted to support the new organizational structure, providing financial information consistent with how the financial results of the businesses will be measured. Additionally, certain of the internal segment financial reporting principles utilized in the measurement and evaluation of the profitability of the Company s businesses (such as the allocation of shared overhead costs) have been revised for consistency with the underlying reorganized structure of the Company. Senior management of the Company, including the Company s chief executive officer, manage the Company and make key decisions about the allocation of Company resources based on the two businesses. The Company s sales subsidiaries sell both Life Sciences and Industrial products. As such, certain overhead costs of these subsidiaries have been, and will continue to be, shared by the businesses.

Consistent with the new corporate structure, management has determined that the Company s reportable segments, which are also its operating segments, consist of its two vertically integrated businesses, Life Sciences and Industrial, in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

Results of Operations

Review of Consolidated Results

Sales in the quarter increased 9.7% to $559,347 from $509,981 in the third quarter of fiscal year 2006. For the nine months, sales increased 13.0%, to $1,603,565. Exchange rates increased reported sales by $22,350 and $53,807 in the quarter and nine months, respectively, primarily due to the weakening of the U.S. dollar against the Euro, the British Pound and various Asian currencies, partly offset by the strengthening of the U.S. dollar against the Japanese Yen. In local currency (i.e., had exchange rates not changed year over year), sales increased 5.3% and 9.2% in the quarter and nine months, respectively. Increased pricing and volume in both Life Sciences and Industrial in the quarter contributed about 0.8% and 4.5% to sales growth, respectively. Overall, pricing was flat in the nine months.

Life Sciences segment sales increased 6.6% and 8.8% (in local currency) in the quarter and nine months, respectively, attributable to growth in both the BioPharmaceuticals and Medical markets. Industrial segment sales increased 4.4% and 9.4% (in local currency) in the quarter and nine months, respectively. All markets in Industrial contributed to the growth in the quarter and nine months. Growth was particularly strong in the Microelectronics market in the nine months (+17.2%), however, there was a slow-down in growth in the quarter (+5.5%) as anticipated. Systems sales decreased 8.6% in the quarter, however, increased 23.4% in the nine months driven by strong sales in the General Industrial market. For a detailed discussion of sales, refer to the section Review of Operating Segments below.

Gross margin, as a percentage of sales, was 49.5% in the quarter compared to 46.8% in the third quarter of fiscal year 2006. Approximately half of the 270 basis point improvement is attributable to a 0.8% overall increase in pricing, driven by both businesses, and cost savings net of certain incremental costs described below, realized from the facilities rationalization initiative. The facilities rationalization initiative has been progressing throughout fiscal year 2007. In the nine months ended April 30, 2007, the Company completed the outsourcing and closure of two plants in Germany and has also announced the closure of a plant in Waldstetten, Germany and a plant in Ternay, France.

Additionally, cost of sales has been favorably impacted by the Company s many manufacturing continuous improvement initiatives including lean initiatives to improve labor productivity (and therefore reduce labor cost) and cost reduction initiatives focused on procurement improvements to reduce direct material and freight costs and movement of certain activities to lower cost countries to also reduce labor costs. In addition, initiatives to improve the profitability of systems sales included product rationalization of less profitable systems. These factors are partly offset by the impact of incremental costs related to the facilities rationalization initiative that include incremental depreciation (on assets to be retired earlier than originally estimated) and training.

For the nine months, gross margin, as a percentage of sales, increased to 47.2% from 46.9% in the same period last year reflecting the factors discussed above with the exception of pricing which was flat in the nine months, partly offset by the impact of the significant growth in systems sales, which typically have lower margins than consumables. In the fourth quarter of fiscal year 2007, Company management expects increased sales and the impact of its cost reduction initiatives to be partly offset by the negative impact of the anticipated higher volume of systems sales, as a percentage of total sales, some of which were ordered prior to the product rationalization of less profitable systems previously discussed to contribute to the stabilization of gross margin for the full fiscal year.

Selling, general and administrative (SG&A) expenses in the quarter increased by $10,270, or about 7%. As a percentage of sales, SG&A expenses decreased to 30% from 30.9% in the third quarter of fiscal year 2006 reflecting cost controls combined with increasing sales. For the nine months, SG&A expenses increased by $27,005, or about 6%, and as a percentage of sales, SG&A expenses decreased to 30.8% from 32.8% in the same period last year reflecting the same factors discussed above. The Company continued to make progress on a major initiative, begun in fiscal year 2006, to optimize its European operations (EuroPall) with the objective of delivering improvements in profitability. In the quarter, the Company launched the equivalent of this program in the Western Hemisphere (AmeriPall). Based on these factors, Company management is expecting SG&A expenses, as a percentage of sales, to decrease approximately 130-150 basis points for the full fiscal year 2007.

Research and development expenses were $15,656 in the quarter compared to $14,511 in the third quarter of fiscal year 2006. As a percentage of sales, research and development expenses were 2.8%, on par with the same period last year. For the nine months, research and development expenses were $45,167, or 2.8% of sales, compared to $41,975, or 3% of sales in the same period last year. Company management expects research and development expenses to be slightly under 3% of sales for the full fiscal year 2007.

In the third quarter of fiscal year 2007, the Company recorded restructuring and other charges (ROTC) of $8,620 primarily related to the Company s on-going cost reduction initiatives (including its facilities rationalization and EuroPall initiatives). The ROTC in the quarter was primarily comprised of severance liabilities, impairment charges related to the planned disposal of buildings and early retirement of certain long-lived assets, and other costs in connection with such initiatives. Additionally, the charges in the quarter include an increase to previously established environmental reserves. Such charges were partly offset by the reversal of excess restructuring reserves recorded in the consolidated statements of earnings in fiscal years 2005 and 2006. In the first nine months of fiscal year 2007, the Company recorded ROTC of $22,060 primarily related to the Company s on-going cost reduction initiatives. The charges in the nine months were primarily comprised of severance liabilities and impairment charges as discussed above. Additionally, the charges in the nine months include an increase to previously established environmental reserves. Such charges were partly offset by the gain on the sale of the Company s corporate headquarters and the reversal of excess restructuring reserves recorded in the consolidated statements of earnings in fiscal years 2005 and 2006.

In the third quarter and nine months of fiscal year 2006, the Company recorded ROTC of $7,313 and $10,999, respectively, primarily comprised of severance and other costs in connection with the Company s divisional realignment, and on-going cost reduction initiatives (including its facilities rationalization and EuroPall initiatives), partly offset by the reversal of excess restructuring reserves recorded in the consolidated statements of earnings in fiscal year 2005. In addition, ROTC in the quarter and nine months of fiscal year 2006 includes an increase in previously established environmental reserves primarily related to environmental matters in Ann Arbor, Michigan and Pinellas Park, Florida. ROTC in the nine months of fiscal year 2006 also includes a gain on the sale of the Company s stock rights in Satair, which was recorded in the second quarter of fiscal year 2006, as well as a gain on the sale of the Company s investment in Panacos Pharmaceuticals, Inc., formerly known as V.I. Technologies, Inc., that was recorded in the first quarter of fiscal year 2006.

The details of ROTC for the quarter and nine months ended April 30, 2007 and April 30, 2006 can be found in Note 7 accompanying the condensed consolidated financial statements. The following table summarizes the activity related to restructuring liabilities that were recorded in fiscal years 2007, 2006 and 2005:

	Severance	Lease Termination Liabilities & Other	Total
2007			
Original charge (a)	$ 19,379	$ 2,066	$ 21,445
Utilized	(3,786)	(1,169)	(4,955)
Other changes (b)	573	7	580
Balance at Apr. 30, 2007	$ 16,166	$ 904	$ 17,070
2006			
Original charge	$ 13,335	$ 3,043	$ 16,378
Utilized	(7,221)	(2,900)	(10,121)
Other changes (b)	182	9	191
Balance at July 31, 2006	6,296	152	6,448
Utilized	(2,238)	(93)	(2,331)
Reversal of excess reserves (c)	(1,031)	(31)	(1,062)
Other changes (b)	116	2	118

Balance at Apr. 30, 2007	$ 3,143	$ 30	$ 3,173

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	Severance	Lease Termination Liabilities & Other	Total
2005			
Original charge	$ 17,496	$ 2,928	$ 20,424
Utilized	(8,404)	(2,739)	(11,143)
Other changes (b)	(86)	4	(82)
Balance at July 31, 2005	9,006	193	9,199
Utilized	(3,243)	(87)	(3,330)
Reversal of excess reserves (c)	(1,905)	(96)	(2,001)
Other changes (b)	57	3	60
Balance at July 31, 2006	3,915	13	3,928
Utilized	(2,280)		(2,280)
Reversal of excess reserves (c)	(713)		(713)
Other changes (b)	30	1	31
Balance at Apr. 30, 2007	$ 952	$ 14	$ 966

(a) Excludes $757 related to pension liabilities.

(b) Other changes primarily reflect translation impact.

(c) Reflects the reversal of excess restructuring reserves originally recorded in fiscal years 2005 and 2006.

Net interest expense in the quarter was $4,260 compared to $5,091 in the same period last year. For the nine months, net interest expense was $14,894 compared to $16,472 in the same period last year. The decrease in net interest expense was attributable to a reduction in average net debt levels as compared to the same periods last year. In addition, a slight decrease in interest rates, due to the movement of debt to lower interest rate countries in the fourth quarter of fiscal year 2006, also contributed to the decline in net interest expense in the quarter and nine months. Company management expects net interest expense for the full fiscal year 2007 to decrease approximately $3,000 - $3,500 compared to fiscal year 2006.

The underlying tax rate (i.e., the tax rate on earnings before income taxes, excluding restructuring and other charges/discrete items) was about 24.8% for the nine months, compared with 24% in the same period in fiscal year 2006. Company management expects that its underlying tax rate for the full fiscal year 2007 will be between 24-25%. For more detail regarding the Company s provision for income taxes, refer to Note 8 accompanying the condensed consolidated financial statements.

Net earnings in the quarter were $67,074, or 54 cents per share, compared with net earnings of $25,189, or 20 cents per share, in the third quarter of fiscal year 2006. Net earnings in nine months were $147,311, or $1.18 per share, compared with net earnings of $82,735, or 66 cents per share in the nine months of fiscal year 2006. In summary, the increase in net earnings in the quarter and nine months reflects sales growth, including increased pricing in the quarter (pricing in the nine months was flat), and an improvement in cost of sales and SG&A as a percentage of sales, primarily driven by cost reduction initiatives. Furthermore, the comparison of net earnings to the same periods last year reflects a one-time charge in provision for income taxes of $17,000 in the third quarter and nine months of fiscal year 2006 representing the tax effect of repatriation of foreign subsidiary earnings. These factors were partly offset by an increase in ROTC related to the Company s cost reduction initiatives compared to the same periods last year. Company management estimates that foreign currency translation increased net earnings by approximately 1 cent per share in the quarter and 2 cents per share in the nine months.

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Review of Operating Segments

The following table presents sales and operating profit by segment for the three and nine months ended April 30, 2007 and April 30, 2006.

	Three Months Ended		Nine Months Ended	
	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
SALES:				
Life Sciences	$ 229,044	$ 205,937	$ 633,981	$ 562,751
Industrial	330,303	304,044	969,584	856,828
Total	$ 559,347	$ 509,981	$ 1,603,565	$ 1,419,579
OPERATING PROFIT (a):				
Life Sciences	$ 50,121	$ 40,968	$ 116,345	$ 91,084
Industrial	54,246	36,408	135,908	97,335
Total operating profit	104,367	77,376	252,253	188,419
General corporate expenses	(10,203)	(10,368)	(30,520)	(29,717)
Earnings before ROTC, interest expense, net and income taxes (b)	94,164	67,008	221,733	158,702
ROTC (b)	(8,997)	(7,646)	(24,953)	(11,838)
Interest expense, net	(4,260)	(5,091)	(14,894)	(16,472)
Earnings before income taxes	$ 80,907	$ 54,271	$ 181,886	$ 130,392

(a) Operating profit for the three and nine months ended April 30, 2006 has been restated in accordance with the Company s new organizational structure including the aforementioned changes in certain internal segment financial reporting principles.

(b) Included in ROTC for the purposes of evaluation of segment profitability are other adjustments recorded in cost of sales. For the three and nine months ended April 30, 2007, such adjustments include incremental depreciation and other adjustments of $377 and $2,893, respectively, recorded in conjunction with the Company s facilities rationalization initiative. Furthermore, such adjustments include a charge of $566 for the nine months ended April 30, 2007 and $333 and $839 for the quarter and nine months ended April 30, 2006, respectively, related to a one-time purchase accounting adjustment to record, at market value, inventory acquired from BioSepra. This resulted in a $2,431 increase in acquired inventories in accordance with SFAS No. 141, Business Combinations, (SFAS No. 141) and a charge to cost of sales in the periods when the sale of a portion of the underlying inventory occurred. The adjustment is excluded from operating profit as management considers it non-recurring in nature because, although the Company acquired the manufacturing operations of BioSepra, this adjustment was required by SFAS No. 141 as an elimination of the manufacturing profit in inventory acquired from BioSepra and subsequently sold.

Life Sciences:

Presented below are Summary Statements of Operating Profit for the Life Sciences segment for the three and nine months ended April 30, 2007 and April 30, 2006:

	Three Months Ended	Nine Months Ended

	Apr. 30, 2007	Apr. 30, 2006	Apr. 30, 2007	Apr. 30, 2006
Sales	$ 229,044	$ 205,937	$ 633,981	$ 562,751
Cost of sales	106,994	103,185	310,691	285,020
Gross margin	122,050	102,752	323,290	277,731
% of sales	53.3	49.9	51.0	49.4
SG&A	63,369	54,159	182,897	163,511
Research and development	8,560	7,625	24,048	23,136
Operating profit	$ 50,121	$ 40,968	$ 116,345	$ 91,084
% of sales	21.9	19.9	18.4	16.2

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The tables below present sales by market and geography within the Life Sciences segment for the three and nine months ended April 30, 2007 and April 30, 2006, including the effect of exchange rates for comparative purposes.

Three Months Ended	**Apr. 30, 2007**	**Apr. 30, 2006**	**% Change**	**Exchange Rate Difference**	**% Change in Local Currency**
By Market					
Medical	$ 121,934	$ 112,737	8.2	$ 4,195	4.4
BioPharmaceuticals	107,110	93,200	14.9	5,371	9.2
Total Life Sciences	$ 229,044	$ 205,937	11.2	$ 9,566	6.6
By Geography					
Western Hemisphere	$ 97,419	$ 91,691	6.3	$ (7)	6.3
Europe	102,934	86,096	19.6	8,916	9.2
Asia	28,691	28,150	1.9	657	(0.4)
Total Life Sciences	$ 229,044	$ 205,937	11.2	$ 9,566	6.6

Nine Months Ended	**Apr. 30, 2007**	**Apr. 30, 2006**	**% Change**	**Exchange Rate Difference**	**% Change in Local Currency**
By Market					
Medical	$ 345,051	$ 315,194	9.5	$ 9,618	6.4
BioPharmaceuticals	288,930	247,557	16.7	12,068	11.8
Total Life Sciences	$ 633,981	$ 562,751	12.7	$ 21,686	8.8
By Geography					
Western Hemisphere	$ 271,056	$ 254,107	6.7	$ 101	6.6
Europe	282,855	231,724	22.1	20,615	13.2
Asia	80,070	76,920	4.1	970	2.8
Total Life Sciences	$ 633,981	$ 562,751	12.7	$ 21,686	8.8

Life Sciences segment sales increased 6.6% and 8.8% in the quarter and nine months, respectively, compared to the same periods of fiscal year 2006. Overall, increased pricing, primarily in the BioPharmaceuticals market, contributed about 1% to sales growth in the quarter. Pricing was flat in the nine months as increases in the BioPharmaceuticals market were offset by a decrease in Medical. Life Sciences represented approximately 41% of total sales in the quarter compared with 40% in the same period last year. For the nine months, Life Sciences represented approximately 40%, on par with the same period last year.

Within Life Sciences, Medical sales, which represented approximately one-half of Life Sciences sales, increased 4.4% and 6.4% in the quarter and nine months, respectively, driven by growth in the Blood Filtration, Hospital and BioSciences markets. The increase in Blood Filtration sales in the quarter and nine months was driven by the Western Hemisphere, reflecting vented whole blood filter and Acrodose product sales to independent blood centers in the U.S., as well as increased sales in Canada, and by Europe, primarily reflecting increased sales to the U.K. blood markets. This was partly offset by decreased sales in Japan. As Japan transitions from bedside filtration to blood centers, the Company s sales to hospitals have decreased while the Company is in the process of qualifying its blood filters with blood centers. Blood Filtration sales may also fluctuate over time due to increased or reduced volume on contract renewals. Certain of our significant Western Hemisphere based blood center contracts are due to expire in fiscal 2008. If such contracts are not renewed, or renewed at lower pricing or volume levels, it may have an adverse impact on our Blood Filtration sales. The growth in the Hospital market in the quarter and nine months primarily reflects high demand for critical care products in Europe. The increase in the BioSciences market in the quarter and nine months was driven by growth in Laboratory sales in all geographies.

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BioPharmaceuticals sales increased 9.2% in the quarter driven by growth in consumables in all geographies partly offset by a decline in systems sales. For the nine months, BioPharmaceuticals sales increased 11.8% driven by growth in consumables in all geographies and in systems sales in Europe and Asia. The growth in consumables (+13.0% in the quarter and +11.8% in the nine months) was driven by the vaccine and large-scale biotechnology sectors, particularly, capsules and single use processing technologies. The growth in systems sales in the nine months reflects the continuing investment by the biotechnology sector and vaccines.

Life Sciences gross margins in the quarter increased to 53.3% from 49.9% last year. For the nine months, Life Sciences gross margins increased to 51% from 49.4% last year. The improvement in gross margins in the quarter and nine months was principally driven by savings generated from cost reduction initiatives, primarily the benefits of reduced labor costs from plant automation and utilization of labor in lower cost countries (primarily reflecting the significant movement of blood-bank related manufacturing operations to Mexico), as well as procurement initiatives, quality initiatives reducing scrap levels and increased pricing in the BioPharmaceuticals market.

SG&A expenses in the quarter were 27.7% as a percentage of sales compared with 26.3% last year. For the nine months, SG&A expenses as a percentage of sales decreased to 28.8% from 29.1% last year. The decrease in SG&A as a percentage of sales in the nine months reflects the benefit of the Company s cost reduction programs and the impact of the growth in sales.

As a result of the above factors, operating profit dollars in the quarter increased approximately 22% to $50,121 and operating margin improved to 21.9% from 19.9%. For the nine months, operating profit dollars increased approximately 28% to $116,345 and operating margin improved to 18.4%.

Industrial:

Presented below are Summary Statements of Operating Profit for the Industrial segment for the three and nine months ended April 30, 2007 and April 30, 2006:

	Three Months Ended		**Nine Months Ended**	
	Apr. 30, 2007	**Apr. 30, 2006**	**Apr. 30, 2007**	**Apr. 30, 2006**
Sales	$ 330,303	$ 304,044	$ 969,584	$ 856,828
Cost of sales	174,856	167,870	532,719	467,632
Gross margin	155,447	136,174	436,865	389,196
% of sales	47.1	44.8	45.1	45.4
SG&A	94,105	92,880	279,838	273,022
Research and development	7,096	6,886	21,119	18,839
Operating profit	$ 54,246	$ 36,408	$ 135,908	$ 97,335
% of sales	16.4	12.0	14.0	11.4

The tables below present sales by market and geography within the Industrial segment for the three and nine months ended April 30, 2007 and April 30, 2006, including the effect of exchange rates for comparative purposes.

Three Months Ended	**Apr. 30, 2007**	**Apr. 30, 2006**	**% Change**	**Exchange Rate Difference**	**% Change in Local Currency**
By Market					
General Industrial (a)	$ 193,231	$ 176,043	9.8	$ 8,496	4.9
Aerospace and Transportation (a)	62,417	58,524	6.7	2,923	1.7

Microelectronics		74,655		69,477	7.5		1,365	5.5
Total Industrial	$	330,303	$	304,044	8.6	$	12,784	4.4
By Geography								
Western Hemisphere	$	93,811	$	94,147	(0.4)	$	(6)	(0.4)
Europe		128,279		114,683	11.9		11,210	2.1
Asia		108,213		95,214	13.7		1,580	12.0