PALL CORP
Form 10-K
September 29, 2008

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

þ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended July 31, 2008

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 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.)
2200 Northern Boulevard, East Hills, NY	**11548**
(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
Common Share Purchase Rights	

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 o No þ

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

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 requirement for the past 90 days. Yes þ No o

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. þ

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Act). Yes o No þ

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, 2008 (the last business day of the registrant s most recently completed second fiscal quarter) was $4,516,443,478.

On September 22, 2008, there were 119,357,527 outstanding shares of the registrant s common stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s proxy statement for the 2008 annual meeting of shareholders, scheduled to be held on November 19, 2008 (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 business groups globally: Life Sciences and Industrial. The Life Sciences business group is focused on developing, manufacturing and selling products to customers in the Medical and BioPharmaceuticals marketplaces. The Industrial business group is focused on developing, manufacturing and selling products to customers in the Aerospace & Transportation, Microelectronics and Energy, Water & Process Technologies markets. The Energy, Water & Process Technologies market was formerly known as the General Industrial market. These business groups are supported by shared and corporate services groups that facilitate the Company s corporate governance and business activities globally. The transition to this business structure began in fiscal year 2005 and was completed in the first quarter of fiscal year 2007. While there is overlap in the intellectual property that underlies the products sold by the business groups, Company management believes that this structure positions the Company for future profitable growth. This business structure holistically focuses on the global marketplace presenting opportunities for sales growth, efficiencies and cost reduction in both of the business groups, as well as in the Company s corporate governance and shared services infrastructure, while leveraging its entire intellectual property portfolio to the marketplaces efficiently.

With few exceptions, research and development activities conducted by the Company are Company sponsored. Research and development expenses totaled $71,647,000 in fiscal year 2008, $62,414,000 in fiscal year 2007 and $57,371,000 in fiscal year 2006.

No one customer accounted for 10% or more of the Company s consolidated sales in fiscal years 2008, 2007 or 2006.

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 13, Contingencies and Commitments, to the accompanying consolidated financial statements.

At July 31, 2008, the Company employed approximately 10,600 persons.

For financial information of the Company by operating segment and geography, please see Note 17, 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).

The Company s website address is www.pall.com. The Company s reports filed with the U.S. Securities and Exchange Commission (SEC) are also available free of charge on its website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. 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 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 site (www.sec.gov) that contains reports, proxy and information statements and other information. Financial and other information can also be accessed on the investor section of the Company s website at www.pall.com. The Company makes available, free of charge, copies of our 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. 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, 2200 Northern Blvd., East Hills, NY, 11548. Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

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As discussed in the special note preceding Part I of the Form 10-K for the fiscal year ended July 31, 2007 (2007 Form 10-K), on August 1, 2007, the audit committee of the Company s board of directors, on the recommendation of management, concluded that the Company s previously issued financial statements for each of the eight fiscal years in the period ended July 31, 2006 (including the interim periods within those years), and for each of the fiscal quarters ended October 31, 2006, January 31, 2007 and April 30, 2007, should no longer be relied upon. Accordingly, the Company restated its previously issued financial statements for those periods in the 2007 Form 10-K.

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 and safe drinking water, 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 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 successful 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 water and energy demand, emerging pathogens, environmental issues, 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 capitalizing on new markets for its products 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, 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 Pall products can make a substantial difference to its customers and especially targets projects, under the umbrella of its Total Fluid Management[SM] (TFM) strategy, whereby it can engineer integrated filtration, purification and separation system solutions 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 integrated use of filtration and separation products. This approach makes use of Pall 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. When fully commissioned, Company management expects these systems to provide an ongoing annuity stream for the Company s consumable filtration products. Systems represent a growing portion of the Company s revenues. Consumable filtration products sold are principally filters made with proprietary Pall 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 processes while increasing efficiency and reducing costs. Such improvement initiatives include the facilities rationalization program in which the Company is consolidating manufacturing, reducing its footprint and realigning plants with its customers general locations. 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 in beer production from pasteurization, as opposed to sophisticated filtration of the kind Pall provides. The Company believes that no one competitor overlaps in more than about 20% (based on revenues) of its business. 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 patented 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 and production. They are used extensively in the research laboratory, pharmaceutical and biotechnology 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 and BioPharmaceuticals 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 has become more of a consideration as the Company s customers have increasingly become 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, 2008 was approximately $140,285,000 (all of which is expected to be shipped in fiscal year 2009) compared with $115,095,000 at July 31, 2007.

MEDICAL MARKET:

The Company s medical products improve the safety of blood transfusions and help control the spread of infections in hospitals. Its broad laboratory product line is used in drug discovery, gene manipulation and proteomics applications. Pall s cell therapy product portfolio provides efficient enabling technologies for the emerging regenerative medicine market. The Company is in the process of developing its second generation product to remove infectious prions from donor blood and believes that prion reduction could be a large potential long-term market opportunity.

Products related to transfusion safety 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 water filters help protect patients from these infections.

The backlog for the Medical market at July 31, 2008 was approximately $45,390,000 (all of which is expected to be shipped in fiscal year 2009) compared with $29,158,000 at July 31, 2007. The Company s principal competitors in the Medical market include Fenwal, Inc., MacoPharma Group, Fresenius Medical Care AG & Co., Millipore Corporation, 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 separation systems and disposable filtration and purification technologies primarily to pharmaceutical and biotechnology companies for use by them in the development and commercialization of chemically synthesized and biologically derived drugs 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 and on to the market.

The fastest growing part of the market is the biotechnology industry. Biotechnology drugs and biologically derived vaccines are very filtration and purification intensive. One of the factors driving Pall s growth is increasing adoption of single-use processing systems to produce drugs. Pall has supplied single-use technologies for many years including self-contained filter capsules as an alternative to stainless steel. There are many advantages to Pall s Allegro™ single-use disposable systems, including more flexible use of space to speed in setting up a new production line.

Critical to the industry, they also can greatly reduce or eliminate the need for cleaning and cleaning validation and reduce the risk of cross-contamination between batches and products.

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, give it a strong competitive advantage among BioPharmaceutical customers because of the high costs and safety risks associated with drug development and production. The backlog for the BioPharmaceuticals market at July 31, 2008 was approximately $94,895,000 (all of which is expected to be shipped in fiscal year 2009) compared with $85,937,000 at July 31, 2007. Principal competitors in the BioPharmaceuticals market include Millipore Corporation, The Sartorius Group, CUNO (a 3M company) and GE Healthcare.

INDUSTRIAL SEGMENT:

The Company provides enabling and process enhancing technologies throughout the industrial marketplace. This includes the aerospace, microelectronics and consumer electronics, municipal and industrial water, fuels, chemicals, energy, and food and beverage markets. The Company has the capability to provide customers with integrated solutions for their process fluids. The backlog for the Industrial segment at July 31, 2008 was approximately $476,153,000 (of which approximately $410,300,000 is expected to be shipped in fiscal year 2009) compared with $456,045,000 at July 31, 2007.

ENERGY, WATER & PROCESS TECHNOLOGIES MARKET (formerly General Industrial):

Included in this diverse market are sales of filters, coalescers and integrated separation systems for hydraulic, fuel and lubrication systems on mechanical equipment to many industries, as well as to producers of energy (i.e., oil, gas, renewable and alternative fuels, electricity and chemicals), food and beverages, municipal and industrial water. 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 growing demand for clean and green technology and increasing demand for water and energy also create growth opportunities for the Company.

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 the Company s filters and systems provide a solution for these requirements. These standards apply to municipal water supplies throughout the United States and in a growing number of countries. Industry, which consumes enormous quantities of water, also increasingly needs to filter water before, during and after use both to conserve it and to ensure it meets discharge requirements.

Within the energy market, demand is strong as oil and gas producers, refineries and power generating stations work to increase production, produce cleaner burning fuels, conserve water, meet environmental regulations and develop alternative fuel sources. Each of these applications provides opportunities for Pall.

Within the Food & Beverage market, filtration solutions are provided to the wine, beer, soft drink, bottled water and food ingredient markets. A growing filtration opportunity in this market is the need of wine and beer manufacturers to eliminate the use of diatomaceous earth, a health concern, in their processes.

The backlog at July 31, 2008 was approximately $290,931,000 (of which approximately $255,800,000 is expected to be shipped in fiscal year 2009) compared with $279,044,000 at July 31, 2007. Sales to Energy, Water & Process Technologies customers are made through Company personnel, distributors and manufacturers representatives. The Company believes that its TFM strategy and ability to engineer fully integrated systems solutions, underscored by product performance and quality, service to the customer, and price, are the principal competitive factors in this market. The Company s principal competitors in the Energy, Water & Process Technologies market include CUNO (a 3M company), GE Infrastructure (a unit of GE), U.S. Filter (a Siemens business), The Sartorius Group, Parker Hannifin Corporation and Rohm and Haas Company.

AEROSPACE & TRANSPORTATION 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. Commercial, Military and Industrial OEM sales represented 34%, 41% and 25%, respectively, of total Aerospace & Transportation sales in fiscal year 2008. Key growth drivers in this market include passenger air miles flown, military budgets, new military and commercial aircraft, and demand for new aircraft and mobile construction equipment in emerging geographic markets, particularly in Asia. Increasing environmental regulation faced by the Company s customers, as well as customer requirements for improved equipment reliability and fuel efficiency, are also driving growth.

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The Company s products are sold to customers in this segment 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 (Satair), for the commercial aerospace aftermarket, such as sales to commercial airlines. The backlog at July 31, 2008 was approximately $160,792,000 (of which approximately $131,600,000 is expected to be shipped in fiscal year 2009) compared with $146,464,000 at July 31, 2007. Competition varies by product. The Company s principal competitors in the Aerospace & Transportation markets include Donaldson Company, Inc., ESCO Technologies Inc. and CLARCOR Inc.

Company management believes that efficacy, performance and quality of product and service, as well as 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 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 Pall provides. While this part of the market is cyclical, Pall has strategically diversified into the consumer electronics market to lessen the impact of the industry s cycles. This strategic diversification into the macroelectronics side of the market is enabling the Company to capitalize on demand for computer gaming consoles, MP3 players, flat screen TVs and monitors, multimedia cell phones and ink jet printers and cartridges. These markets are typically less cyclical and just as filtration intensive. A newer application served by Microelectronics is the growing production of solar cells.

The Company s products are sold to customers in this market through its own personnel, distributors and manufacturers representatives. The backlog at July 31, 2008 was approximately $24,430,000 (of which approximately $22,900,000 is expected to be shipped in fiscal year 2009) compared with $30,537,000 at July 31, 2007. 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 of the Company s Microelectronics technologies 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.

PATENTS:

The Company owns a broad range of patents covering its filter media, filter designs and other products, but it considers these to be mainly defensive, and its operations rely principally on its proprietary manufacturing methods and engineering skills.

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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 report.

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 our recent restatement of prior period financial statements. These proceedings include the ongoing audits in process of the Company s tax returns, as well as audits expected to commence of the Company s tax returns for some of the periods affected by the restatement. In September 2007, the Company deposited $135 million with the U.S. Treasury, which reflected management s preliminary assessment of additional taxes and interest that the Company might owe the Internal Revenue Service (IRS) for prior years as a result of tax compliance matters identified at the time and did not include any amount with respect to potential penalties. In completing the restatement, the Company examined the appropriateness of the Company s accounting treatment of the tax consequences of each type of intercompany transaction in the various taxing jurisdictions in which the Company operates. As a result of this analysis, the Company determined that additional financial statement reserves were required with respect to certain other lesser tax compliance matters. The Company cannot predict when the ongoing IRS audit will be completed or the amount or timing of the final resolution with the IRS or other relevant taxing authorities of the matters that gave rise to the restatement, including the amount of any penalties that may be imposed, which could be substantial.

The Company is also subject to other regulatory and litigation proceedings relating to, or arising out of, the restatement, including pending investigations by the SEC and the Department of Justice, purported securities class action lawsuits and derivative lawsuits seeking relief against certain of the Company s officers and directors. These proceedings could also result in civil or criminal fines and other non-monetary penalties. The Company has not reserved any amount in respect of these matters in its consolidated financial statements.

The Company cannot predict whether any monetary losses it experiences in the proceedings will be covered by insurance or whether insurance proceeds recovered will be sufficient to offset such losses. 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.

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, including particularly in the United States;
- the nature, timing and impact of permanent or temporary changes in tax laws or regulations, including the termination or extension of provisions under U.S. federal income tax law that are or may become subject to sunset, such as research and development credits and incentives related to U.S. domestic production;
- 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.

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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 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 and substantial penalties. 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.

Changes in product mix and product pricing may affect the Company s operating results particularly with the expansion of the systems business, 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 integrated systems. Because systems are generally sold at lower gross margins than many other products, gross margins could decline if systems 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 systems platform generally also experiences 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 systems sales depends substantially on the ability of management to estimate accurately the costs involved in manufacturing and implementing the relevant system 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 system 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.

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 margin improvement initiatives, including the timing of completion of its facilities rationalization initiative.

In fiscal year 2006, the Company began an extensive program to restructure manufacturing operations, including the closing of up to 12 facilities around the globe. One of the purposes of this initiative is to reduce manufacturing costs and improve gross margins. Unexpected delays or other factors in the facilities rationalization initiative and other cost reduction initiatives could impact the Company s ability to realize the anticipated savings and to improve or maintain gross margins.

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

In fiscal year 2008, the Company derived 71% of sales from outside the United States. Sales outside the United States are typically made in the local currencies of those countries. The primary foreign currency exposures relate to adverse changes in the relationships of the U.S. dollar to the British Pound, the Euro, the Japanese Yen, Swiss Franc, the Australian Dollar, the Canadian Dollar and the Singapore Dollar, as well as adverse changes in the relationship of the Pound to the Euro. As a result, fluctuations in currency exchange rates may affect operating results. Giving effect to the Company s interest rate swap, the Company s debt portfolio was approximately 50% variable rate at July 31, 2008. Fluctuations in interest rates may affect operating results.

The Company may not be able to obtain regulatory approval or market acceptance of new technologies.

Part of the Company s planned growth is dependent on new products and technologies. Some of those new products may require regulatory approval. Growth from those new technologies may not be realized if regulatory approval is not granted or customer demand for those products or technologies does not materialize.

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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, development and capital expenditure plans.

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 maintaining relationships with key suppliers.

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 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.

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.

The Company may be impacted 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 United States. A recession in the United States could have a negative impact on demand for the Company s products not only in the United States, but also globally. 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.

The Company may be adversely affected by the current economic environment

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets), increases in energy costs and other macro-economic challenges currently affecting the economy of the United States and other parts of the world, customers or vendors may experience serious cash flow problems and as a result, may modify, delay or cancel plans to purchase the Company s products and vendors 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, accounts receivable that are owed to the Company. Any inability of current and/or potential customers to pay the Company for its products may adversely affect the Company s earnings and cash flow. If economic conditions in the United States and other key markets deteriorate further or do not show improvement, the Company may experience material adverse impacts to its business and operating results.

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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 customer orders and invoices, provide customer service, collect accounts receivable, purchase products from its suppliers, manage inventory, and consolidate these and other transactions for its financial reporting and monitoring mechanisms. 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 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 incrementally improve, manage and integrate its IT systems, reporting systems and operating procedures, it could adversely affect the Company s ability to achieve its objectives.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The following are the Company s principal facilities (i.e., facilities with square footage in excess of 25,000 square feet), which in the opinion of management are suitable and adequate to meet the Company s requirements:

Location	Principal Activities (1)	Principally Supports the Following Business Groups (2)	Fiscal Year 2008 Square Footage
OWNED:			
Western Hemisphere			
Cortland, NY	A	PI	338,000
DeLand, FL	M	PI	279,000
Fajardo & Luquillo, Puerto Rico	M,W	PLS	261,000
Pt. Washington, NY	L,S	A	239,000
Ann Arbor, MI	A	PLS	186,000
New Port Richey, FL	A	PI	179,000
Timonium, MD	M,W,S	PI	160,000
Ft. Myers, FL	A	PI	111,000
Pensacola, FL	A	PLS	98,000
Hauppauge, NY	M	PLS	75,000
Covina, CA	M,L	PLS	71,000
Putnam, CT	M	PI	63,000
Europe			
Bad Kreuznach, Germany	A	PI	390,000
Portsmouth, U.K.	A	A	270,000
Crailsheim, Germany	A	PI	215,000
Ascoli, Buccinasco & Verona, Italy	A	A	189,000
Tipperary, Ireland	M	PI	178,000
Redruth, U.K.	M	PI	163,000
Ilfracombe, U.K.	M	PLS	125,000
Newquay, U.K.	M	PLS	110,000
Bazet, France	A	PI	96,000
Frankfurt, Germany	W,S	A	75,000
Saint Germain, France	L,W,S	A	60,000
Ternay, France	A	PI	33,000
Asia			
Tsukuba, Japan	M,L,W	PI	122,000
LEASED:			
Western Hemisphere			
East Hills, NY	A	A	320,000
Cortland, NY	M,W	PI	111,000
Timonium, MD	M,W	PI	71,000
Baltimore, MD	W	PI	41,000
Covina, CA	W	PLS	40,000
Northborough, MA	M,W	A	38,000
Humacao, Puerto Rico	W	PLS	34,000
San Diego, CA	A	PI	26,000
Europe			
Johannesburg, South Africa	W,S	PI	99,000
Madrid, Spain	L,W,S	A	44,000

Cergy, France	A	PLS	43,000
Ascoli, Italy	W	PLS	35,000
Asia			
Beijing, China	M,W,S	PI	314,000
Melbourne & Somersby, Australia	A	A	102,000
Mumbai, Banglore, Pune & Bhiwandi, India	L,W,S	A	80,000
Tokyo, Osaka & Nagoya, Japan	L,S	A	47,000

(1) **Definition of Principal Activities**
M: Manufacturing activities
L: Laboratories for research & development and validation activities
W: Warehousing activities
S: Sales, marketing and administrative activities
A: All of the above
(2) **Definition of Business Groups**
PLS: Pall Life Sciences
PI: Pall Industrial
CS: Corporate and Shared Services
A: All of the above

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 United States 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, Eric Krasnoff and Lisa McDermott 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.

Shareholder Derivative Lawsuits:

On October 5, 2007, two plaintiffs filed identical derivative lawsuits in New York Supreme Court, Nassau County relating to the tax matter described above. These actions purport 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 allege 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 seek unspecified compensatory damages on behalf of Pall Corporation, 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. 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.

Another shareholder derivative lawsuit relating to the tax matter described above was filed in the United States District Court for the Eastern District of New York on January 10, 2008. This action purports to bring claims on behalf of the Company based on allegations that certain of the current directors of the Company breached their fiduciary duties and were unjustly enriched in connection with the tax matter described above. The complaint seeks unspecified compensatory damages on behalf of Pall Corporation, disgorgement of defendants profits, benefits and other compensation, equitable and non-monetary relief, and costs and expenses. The Company, acting in its capacity as nominal defendant, moved to dismiss the complaint for lack of subject matter jurisdiction over the complaint. On May 23, 2008, the plaintiff filed a notice of voluntary dismissal without prejudice, which was subsequently granted by the Court.

Other Proceedings:

The SEC and U.S. Attorney s Office for the Eastern District of New York are conducting investigations in connection with the tax matter described above. The Company is cooperating with these investigations.

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Environmental Matters:

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

The Company s balance sheet at July 31, 2008 contains environmental liabilities of $14,749,000, 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 13, 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 (the REO) requiring Gelman to submit and implement a detailed plan that will 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 has 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 now in the process of 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 (DEQ) 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 DEQ 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 DEQ 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. These discussions are ongoing. 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 DEQ several modifications to the Consent Judgment on August 1, 2008 and met with the DEQ to discuss these modifications (and other outstanding issues) on September 15, 2008. The parties agreed that Gelman would prepare and submit to the DEQ 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.

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 level.

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 2006, 2007 and 2008. Groundwater analytical results have been provided to FDEP. Once the delineation has been declared complete by FDEP, the Company will complete and submit a Site Assessment Report Addendum, summarizing the soil and groundwater contamination, delineation and remediation.

Active remediation through the fourth quarter of fiscal year 2008 was performed in accordance with work defined in the ISRP and addenda approved by FDEP. Additional remediation may be required 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 through recordation of restrictive covenants prohibiting groundwater use. The first two requirements will be demonstrated through groundwater monitoring; a local law firm is preparing restrictive covenants and assisting Pall management during preliminary discussions with the owners of adjacent properties.

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.

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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. On October 23, 2007, NYSDEC requested submittal of a RD/RA Work Plan, which the Company submitted on December 20, 2007. The Company has pursued possible settlement of liability for OU-1 and met with NYSDEC again on November 30, 2007 to present a settlement framework. On December 20, 2007, the Company submitted a description of the settlement framework for NYSDEC s further review. On April 15, 2008, the Company met with NYSDEC staff to discuss settlement terms and reached conceptual agreement on settlement for liability for OU-1. In an April 18, 2008 letter, NYSDEC confirmed its acceptance of the conceptual settlement. On August 13, 2008, the Company received for review and comment a proposed Consent Decree to settle this matter.

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 is now in Chapter 11 bankruptcy 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.

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.

Hauppauge, New York:

On December 3, 2004, a third-party action was commenced against the Company in the United States District Court for the Eastern District of New York in connection with groundwater contamination. In the primary action, plaintiff Anwar Chitayat (Chitayat or the plaintiff) seeks recovery against defendants Vanderbilt Associates and Walter Gross for environmental costs allegedly incurred, and to be incurred, in connection with the disposal of hazardous substances from property located in Hauppauge, New York (the Site). The Site is a property located in the same industrial park as a Company facility. Vanderbilt Associates is the prior owner of the site and Walter Gross was a partner in Vanderbilt Associates. Following Mr. Gross death in 2005, Barbara Gross was substituted as a third-party plaintiff. Ms. Gross claims that the Company is responsible for releasing hazardous substances into the soil and groundwater at its property, which then migrated to the Site, and seeks indemnification and contribution under Section 113 of CERCLA from third-party defendants, including the Company, in the event she is liable to Chitayat.

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Chitayat alleges that prior to 1985, Vanderbilt Associates leased the Site to Sands Textiles Finishers, Inc. for textile manufacturing and dry cleaning. Chitayat alleges that hazardous substances were disposed at the Site during the time period that Mr. Gross and Vanderbilt Associates owned and/or operated the Site, which migrated from the Site to surrounding areas. Chitayat alleges that in August 1998, he entered into a Consent Order with the NYSDEC which resulted in NYSDEC investigating the Site and developing a remediation plan, and required Chitayat to reimburse the State via a periodic payment plan. Chitayat alleges that the total response costs will exceed $3,000,000, and that he has incurred more than $500,000 in costs to date.