

# PALL CORP (PLL)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the quarterly period ended January 31, 2012**  
or

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

**Commission File Number: 001-04311**

**PALL CORPORATION**

(Exact name of registrant as specified in its charter)

**New York**

(State or other jurisdiction of  
incorporation or organization)

**11-1541330**

(I.R.S. Employer  
Identification No.)

**25 Harbor Park Drive, Port Washington, NY**

(Address of principal executive offices)

**11050**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock outstanding as of March 5, 2012 was 115,798,588.

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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)**

|  | <b>Jan 31, 2012</b> | <b>July 31, 2011</b> |
|--|---------------------|----------------------|
| <b>ASSETS</b>                                    |                     |                      |
| Current assets:                                  |                     |                      |
| Cash and cash equivalents                        | \$ 527,904          | \$ 557,766           |
| Accounts receivable                              | 594,910             | 646,769              |
| Inventories                                      | 445,631             | 444,842              |
| Prepaid expenses                                 | 49,137              | 39,322               |
| Other current assets                             | 142,718             | 120,509              |
| Total current assets                             | 1,760,300           | 1,809,208            |
| Property, plant and equipment                    | 824,550             | 794,599              |
| Goodwill   | 292,599             | 290,606              |
| Intangible assets                                | 79,143              | 61,735               |
| Other non-current assets                         | 249,594             | 276,268              |
| Total assets                                     | \$ 3,206,186        | \$ 3,232,416         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>      |                     |                      |
| Current liabilities:                             |                     |                      |
| Notes payable                                    | \$ 139,970          | \$ 214,957           |
| Accounts payable and other current liabilities   | 495,508             | 519,883              |
| Income taxes payable                             | 78,261              | 34,531               |
| Current portion of long-term debt                | 487                 | 511                  |
| Dividends payable                                | 24,280              | 20,125               |
| Total current liabilities                        | 738,506             | 790,007              |
| Long-term debt, net of current portion           | 493,737             | 491,954              |
| Income taxes payable – non-current               | 126,639             | 175,040              |
| Deferred taxes and other non-current liabilities | 273,470             | 285,594              |
| Total liabilities                                | 1,632,352           | 1,742,595            |
| Stockholders' equity:                            |                     |                      |
| Common stock, par value \$.10 per share          | 12,796              | 12,796               |
| Capital in excess of par value                   | 264,225             | 246,665              |
| Retained earnings                                | 1,726,924           | 1,619,051            |
| Treasury stock, at cost                          | (461,473)           | (483,705)            |
| Stock option loans                               | —                   | (133)                |
| Accumulated other comprehensive income/(loss):   |                     |                      |
| Foreign currency translation                     | 141,498             | 207,478              |
| Pension liability adjustment                     | (114,046)           | (121,831)            |
| Unrealized investment gains                      | 3,910               | 9,500                |
|  | 31,362              | 95,147               |
| Total stockholders' equity                       | 1,573,834           | 1,489,821            |
| Total liabilities and stockholders' equity       | \$ 3,206,186        | \$ 3,232,416         |

See accompanying notes to condensed consolidated financial statements.



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

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | Jan 31, 2012       | Jan 31, 2011 | Jan 31, 2012     | Jan 31, 2011 |
| Net sales                                    | \$ 697,981         | \$ 645,232   | \$ 1,403,622     | \$ 1,250,709 |
| Cost of sales                                | 337,696            | 312,747      | 687,081          | 609,551      |
| Gross profit                                 | 360,285            | 332,485      | 716,541          | 641,158      |
| Selling, general and administrative expenses | 215,194            | 197,100      | 429,090          | 379,398      |
| Research and development                     | 21,583             | 20,773       | 42,521           | 40,942       |
| Restructuring and other charges, net         | 5,813              | 4,789        | 28,797           | 6,198        |
| Interest expense, net                        | 5,386              | 5,814        | 11,331           | 13,108       |
| Earnings before income taxes                 | 112,309            | 104,009      | 204,802          | 201,512      |
| Provision for income taxes                   | 27,580             | 28,345       | 50,618           | 54,439       |
| Net earnings                                 | \$ 84,729          | \$ 75,664    | \$ 154,184       | \$ 147,073   |
| Earnings per share:                          |                    |              |                  |              |
| Basic  | \$ 0.73            | \$ 0.65      | \$ 1.33          | \$ 1.26      |
| Diluted                                      | \$ 0.72            | \$ 0.64      | \$ 1.31          | \$ 1.25      |
| Dividends declared per share                 | \$ 0.210           | \$ 0.175     | \$ 0.385         | \$ 0.175     |
| Average shares outstanding:                  |                    |              |                  |              |
| Basic  | 116,196            | 116,476      | 115,997          | 116,405      |
| Diluted                                      | 117,914            | 118,266      | 117,555          | 118,102      |

See accompanying notes to condensed consolidated financial statements.

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

|  | Six Months Ended |              |
|--|------------------|--------------|
|  | Jan 31, 2012     | Jan 31, 2011 |
| <b>Operating activities:</b>                                   |                  |              |
| Net cash provided by operating activities                      | \$ 203,983       | \$ 155,523   |
| <b>Investing activities:</b>                                   |                  |              |
| Capital expenditures   | (94,285)         | (59,945)     |
| Acquisition of business  | (25,669)         | —            |
| Purchases of retirement benefit assets                         | (22,388)         | (50,381)     |
| Proceeds from sale of retirement benefit assets                | 21,862           | 39,608       |
| Proceeds from sale of assets                                   | 19,856           | 410          |
| Other  | (9,094)          | (3,642)      |
| Net cash used by investing activities                          | (109,718)        | (73,950)     |
| <b>Financing activities:</b>                                   |                  |              |
| Notes payable  | (74,987)         | 130,081      |
| Dividends paid   | (40,274)         | (36,976)     |
| Long-term borrowings   | 84               | 35,109       |
| Repayments of long-term debt                                   | (266)            | (298,252)    |
| Net proceeds from stock plans                                  | 16,662           | 28,289       |
| Purchase of treasury stock                                     | —                | (29,538)     |
| Excess tax benefits from stock-based compensation arrangements | 2,057            | 6,488        |
| Net cash used by financing activities                          | (96,724)         | (164,799)    |
| Cash flow for period   | (2,459)          | (83,226)     |
| Cash and cash equivalents at beginning of year                 | 557,766          | 498,563      |
| Effect of exchange rate changes on cash and cash equivalents   | (27,403)         | 19,924       |
| Cash and cash equivalents at end of period                     | \$ 527,904       | \$ 435,261   |
| Supplemental disclosures:                                      |                  |              |
| Interest paid  | \$ 11,913        | \$ 14,057    |
| Income taxes paid (net of refunds)                             | 50,485           | 54,341       |

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 – BASIS OF PRESENTATION

The condensed consolidated financial information of Pall Corporation and its subsidiaries (hereinafter collectively called the “Company”) 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, 2011 (“2011 Form 10-K”). Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 – BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

|  | Jan 31, 2012      | July 31, 2011     |
|--|-------------------|-------------------|
| Accounts receivable:                   |                   |                   |
| Billed                                 | \$ 514,976        | \$ 553,500        |
| Unbilled                               | 89,781            | 101,652           |
| Total                                  | 604,757           | 655,152           |
| Less: Allowances for doubtful accounts | (9,847)           | (8,383)           |
|  | <u>\$ 594,910</u> | <u>\$ 646,769</u> |

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

|                              | Jan 31, 2012      | July 31, 2011     |
|------------------------------|-------------------|-------------------|
| Inventories:                 |                   |                   |
| Raw materials and components | \$ 101,720        | \$ 102,745        |
| Work-in-process              | 110,538           | 96,601            |
| Finished goods               | 233,373           | 245,496           |
|                              | <u>\$ 445,631</u> | <u>\$ 444,842</u> |

|   | Jan 31, 2012      | July 31, 2011     |
|---|-------------------|-------------------|
| Property, plant and equipment:                  |                   |                   |
| Property, plant and equipment                   | \$ 1,750,427      | \$ 1,705,559      |
| Less: Accumulated depreciation and amortization | (925,877)         | (910,960)         |
|   | <u>\$ 824,550</u> | <u>\$ 794,599</u> |

NOTE 3 – GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill, allocated by reportable segment.

|               | Jan 31, 2012      | July 31, 2011     |
|---------------|-------------------|-------------------|
| Life Sciences | \$ 130,763        | \$ 131,852        |
| Industrial    | 161,836           | 158,754           |
|               | <u>\$ 292,599</u> | <u>\$ 290,606</u> |



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

Intangible assets, net, consist of the following:

|                                   | <b>Jan 31, 2012</b>  |                                     |                  |
|-----------------------------------|----------------------|-------------------------------------|------------------|
|                                   | <b>Gross</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net</b>       |
| Patents and unpatented technology | \$ 100,550           | \$ 68,351                           | \$ 32,199        |
| Customer-related intangibles      | 51,439               | 9,036                               | 42,403           |
| Trademarks                        | 6,946                | 4,925                               | 2,021            |
| Other                             | 5,254                | 2,734                               | 2,520            |
|                                   | <u>\$ 164,189</u>    | <u>\$ 85,046</u>                    | <u>\$ 79,143</u> |
|                                   | <b>July 31, 2011</b> |                                     |                  |
|                                   | <b>Gross</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net</b>       |
| Patents and unpatented technology | \$ 102,372           | \$ 64,921                           | \$ 37,451        |
| Customer-related intangibles      | 26,478               | 6,598                               | 19,880           |
| Trademarks                        | 6,802                | 4,684                               | 2,118            |
| Other                             | 4,685                | 2,399                               | 2,286            |
|                                   | <u>\$ 140,337</u>    | <u>\$ 78,602</u>                    | <u>\$ 61,735</u> |

The changes in both goodwill and intangible assets relate to an acquisition in Brazil in the first quarter of fiscal year 2012 . In connection with the acquisition, the Company recorded the fair value of the intangible assets acquired (approximately \$20,000 , with the majority recorded as customer-related intangibles), which were valued using the income approach. The amount of goodwill recorded in connection with this acquisition was approximately \$10,000 . In addition, the carrying amounts were also impacted by changes in foreign exchange rates used to translate the goodwill and intangible assets contained in the financial statements of foreign subsidiaries using the rates at each respective balance sheet date.

Amortization expense for intangible assets for the three and six months ended January 31, 2012 was \$4,598 and \$8,790 , respectively. Amortization expense for intangible assets for the three and six months ended January 31, 2011 was \$3,313 and \$6,509 , respectively. Amortization expense, excluding any impact of the acquisition of ForteBio®, Inc., for which a valuation has not yet been completed (see Note 16, Subsequent Event, for further details), is estimated to be approximately \$9,129 for the remainder of fiscal year 2012 , \$12,394 in fiscal year 2013 , \$10,295 in fiscal year 2014 , \$8,637 in fiscal year 2015 , \$7,509 in fiscal year 2016 and \$7,419 in fiscal year 2017 .

**NOTE 4 – TREASURY STOCK**

On October 16, 2008, the board authorized an expenditure of \$350,000 to repurchase shares. On September 26, 2011, the board authorized an additional \$250,000. The Company’s shares may be purchased over time, as market and business conditions warrant. There is no time restriction on these authorizations. There were no share repurchases during the six months ended January 31, 2012. As of January 31, 2012, \$453,037 remains to be expended under the current board repurchase authorizations. Repurchased shares are held in treasury for use in connection with the Company’s stock plans and for general corporate purposes.

During the six months ended January 31, 2012, 613 shares were issued under the Company’s stock-based compensation plans. At January 31, 2012, the Company held 12,350 treasury shares.

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

NOTE 5 – CONTINGENCIES AND COMMITMENTS

With respect to the matters described in Note 14, Contingencies and Commitments, to the Company's consolidated financial statements included in the 2011 Form 10-K, under the heading Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings, the Company has reached an agreement with the lead plaintiff to settle the consolidated putative securities class-action lawsuit originally filed in August 2007 in the United States District Court for the Eastern District of New York. Under the terms of the proposed settlement, the lawsuit will be dismissed with prejudice, and the Company and all individual defendants do not admit any liability and will receive a full and complete release of all claims asserted against them in the litigation, in exchange for the payment of an aggregate of \$22,500. Of the monetary payment to be made on behalf of the Company and the individual defendants, substantially all will be funded from insurance proceeds. The agreement is subject to the execution of definitive settlement documents and court approval after the class has been notified of its terms. The Company has reflected appropriate costs, contingent liabilities and related insurance recoveries in the condensed consolidated financial statements as of January 31, 2012 and July 31, 2011.

The Company and its subsidiaries are subject to certain other legal actions that arise in the normal course of business. Other than those legal proceedings and claims discussed below and in the 2011 Form 10-K, the Company did not have any current other legal proceedings and claims that would individually or in the aggregate have a reasonably possible materially adverse affect on its financial condition or operating results. As such, any reasonably possible loss or range of loss, other than those legal proceedings discussed in this note and in the 2011 Form 10-K, is immaterial. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in several of these legal matters in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

**Environmental Matters:**

The Company's condensed consolidated balance sheet at January 31, 2012 includes liabilities for environmental matters of approximately \$13,487, which relate primarily to the environmental proceedings discussed in the 2011 Form 10-K. 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 6 – RESTRUCTURING AND OTHER CHARGES, NET

The following tables summarize the restructuring and other charges ("ROTC") recorded for the three and six months ended January 31, 2012 and January 31, 2011 :

|  | Three Months Ended Jan 31, 2012 |                                     |          | Six Months Ended Jan 31, 2012 |                                     |           |
|--|---------------------------------|-------------------------------------|----------|-------------------------------|-------------------------------------|-----------|
|  | Restructuring<br>(1)            | Other<br>(Gains)/<br>Charges<br>(2) | Total    | Restructuring<br>(1)          | Other<br>(Gains)/<br>Charges<br>(2) | Total     |
| Severance benefits and other employment contract obligations                                     | \$ 2,894                        | \$ 862                              | \$ 3,756 | \$ 28,302                     | \$ 8,832                            | \$ 37,134 |
| Gain on sale of assets   | —                               | —                                   | —        | (1,515)                       | (9,196)                             | (10,711)  |
| Professional fees, legal settlements and other costs, net of receipt of insurance claim payments | 591                             | 1,466                               | 2,057    | 1,366                         | 1,054                               | 2,420     |
| Reversal of excess restructuring reserves  | —                               | —                                   | —        | (46)                          | —                                   | (46)      |
|  | \$ 3,485                        | \$ 2,328                            | \$ 5,813 | \$ 28,107                     | \$ 690                              | \$ 28,797 |
| Cash   | \$ 3,485                        | \$ 1,959                            | \$ 5,444 | \$ 28,107                     | \$ (1,847)                          | \$ 26,260 |
| Non-cash(a)  | —                               | 369                                 | 369      | —                             | 2,537                               | 2,537     |
|  | \$ 3,485                        | \$ 2,328                            | \$ 5,813 | \$ 28,107                     | \$ 690                              | \$ 28,797 |

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

|   | Three Months Ended Jan 31, 2011 |                                     |          | Six Months Ended Jan 31, 2011 |                                     |          |
|---|---------------------------------|-------------------------------------|----------|-------------------------------|-------------------------------------|----------|
|   | Restructuring<br>(1)            | Other<br>(Gains)/<br>Charges<br>(2) | Total    | Restructuring<br>(1)          | Other<br>(Gains)/<br>Charges<br>(2) | Total    |
| Severance benefits  | \$ 3,453                        | \$ —                                | \$ 3,453 | \$ 3,453                      | \$ —                                | \$ 3,453 |
| Professional fees and other costs, net of receipt of insurance claim payments | 1,709                           | (1,023)                             | 686      | 2,720                         | (619)                               | 2,101    |
| Environmental matters   | —                               | 650                                 | 650      | —                             | 650                                 | 650      |
| Reversal of excess restructuring reserves                                     | —                               | —                                   | —        | (6)                           | —                                   | (6)      |
|   | \$ 5,162                        | \$ (373)                            | \$ 4,789 | \$ 6,167                      | \$ 31                               | \$ 6,198 |
| Cash  | \$ 5,162                        | \$ (373)                            | \$ 4,789 | \$ 6,167                      | \$ 31                               | \$ 6,198 |
| Non-cash  | —                               | —                                   | —        | —                             | —                                   | —        |
|   | \$ 5,162                        | \$ (373)                            | \$ 4,789 | \$ 6,167                      | \$ 31                               | \$ 6,198 |

(a) Reflects non-cash stock based compensation expense.

(1) Restructuring:

Restructuring charges recorded in the three and six months ended January 31, 2012 and January 31, 2011 reflect the expenses incurred in connection with the Company's cost reduction initiatives.

Severance benefits recorded in the three and six months ended January 31, 2012 primarily relate to global restructuring activities in the Industrial segment. The most significant restructuring activities include:

- the realignment of sales and marketing management of certain of the Company's markets,
- the reorganization of the global management structure that supports the Company's systems product line, and
- shifting resources from mature country markets to emerging regions.

Restructuring charges/(income) in the six months ended January 31, 2012 also includes a gain of \$1,515 on the divestiture of a non-strategic asset group.

Severance benefits recorded in the three and six months ended January 31, 2011 primarily relate to the closure of an Industrial manufacturing facility in Europe.

(2) Other (Gains) / Charges:

Employment contract obligations and other severance benefits:

In the three and six months ended January 31, 2012, the Company recorded charges related to certain employment contract obligations.

Gain on sale of assets:

The six months ended January 31, 2012 includes a gain of \$9,196 on the sale of the Company's investment in Satair A/S.

Professional fees and other costs:

In the three and six months ended January 31, 2012 and January 31, 2011, the Company recorded legal and other professional fees related to the Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings (see Note 5, Contingencies and Commitments) which pertain to matters that had been under audit committee inquiry as discussed in Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2007 ("2007 Form 10-K"). Furthermore, in the three months ended January 31, 2012, the Company recorded costs related to the settlement of the Federal Securities Class Actions (see Note 5, Contingencies and Commitments). The

receipt of insurance claim payments partly offset the costs discussed above in the three and six months ended January 31, 2012 and more than offset such costs in the three and six months ended January 31, 2011.

**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 the six months ended January 31, 2012 and in fiscal years 2011, 2010 and 2009.

|                         | <b>Severance</b> | <b>Other</b>  | <b>Total</b>     |
|-------------------------|------------------|---------------|------------------|
| <b>2012</b>             |                  |               |                  |
| Original charge         | \$ 28,302        | \$ 1,367      | \$ 29,669        |
| Utilized                | (9,703)          | (842)         | (10,545)         |
| Translation             | 151              | 8             | 159              |
| Balance at Jan 31, 2012 | <u>\$ 18,750</u> | <u>\$ 533</u> | <u>\$ 19,283</u> |
| <b>2011</b>             |                  |               |                  |
| Original charge         | \$ 4,863         | \$ 5,507      | \$ 10,370        |
| Utilized                | (1,817)          | (5,225)       | (7,042)          |
| Translation             | 272              | 68            | 340              |
| Balance at Jul 31, 2011 | <u>\$ 3,318</u>  | <u>\$ 350</u> | <u>\$ 3,668</u>  |
| Utilized                | (3,147)          | (350)         | (3,497)          |
| Translation             | (119)            | —             | (119)            |
| Balance at Jan 31, 2012 | <u>\$ 52</u>     | <u>\$ —</u>   | <u>\$ 52</u>     |
| <b>2010</b>             |                  |               |                  |
| Original charge (a)     | \$ 6,034         | \$ 5,581      | \$ 11,615        |
| Utilized                | (2,031)          | (5,441)       | (7,472)          |
| Translation             | 1                | (9)           | (8)              |
| Balance at Jul 31, 2010 | <u>\$ 4,004</u>  | <u>\$ 131</u> | <u>\$ 4,135</u>  |
| Utilized                | (1,356)          | (135)         | (1,491)          |
| Translation             | 2                | 4             | 6                |
| Balance at Jul 31, 2011 | <u>\$ 2,650</u>  | <u>\$ —</u>   | <u>\$ 2,650</u>  |
| Utilized                | (1,182)          | —             | (1,182)          |
| Translation             | —                | —             | —                |
| Balance at Jan 31, 2012 | <u>\$ 1,468</u>  | <u>\$ —</u>   | <u>\$ 1,468</u>  |

**PALL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(In thousands, except per share data)  
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|                             | Severance | Other    | Total     |
|-----------------------------|-----------|----------|-----------|
| <b>2009</b>                 |           |          |           |
| Original charge             | \$ 18,938 | \$ 4,734 | \$ 23,672 |
| Utilized                    | (12,757)  | (4,133)  | (16,890)  |
| Translation                 | 412       | 20       | 432       |
| Balance at Jul 31, 2009     | 6,593     | 621      | 7,214     |
| Utilized                    | (4,902)   | (588)    | (5,490)   |
| Reversal of excess reserves | (143)     | —        | (143)     |
| Translation                 | (86)      | (27)     | (113)     |
| Balance at Jul 31, 2010     | \$ 1,462  | \$ 6     | \$ 1,468  |
| Utilized                    | (845)     | (6)      | (851)     |
| Reversal of excess reserves | (6)       | —        | (6)       |
| Translation                 | 120       | —        | 120       |
| Balance at Jul 31, 2011     | \$ 731    | \$ —     | \$ 731    |
| Utilized                    | (228)     | —        | (228)     |
| Reversal of excess reserves | (46)      | —        | (46)      |
| Translation                 | (52)      | —        | (52)      |
| Balance at Jan 31, 2012     | \$ 405    | \$ —     | \$ 405    |

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

**NOTE 7 – INCOME TAXES**

The Company's effective tax rate for the six months ended January 31, 2012 and January 31, 2011 was 24.7% and 27.0%, respectively. For the six months ended January 31, 2012 and January 31, 2011, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations.

At January 31, 2012 and July 31, 2011, the Company had gross unrecognized income tax benefits of \$196,243 and \$188,380, respectively. During the six months ended January 31, 2012, the amount of gross unrecognized tax benefits increased by \$7,863, primarily due to tax positions taken during the fiscal year, partially offset by the impact of foreign currency translation and the expiration of various statutes of limitations. As of January 31, 2012, the amount of net unrecognized income tax benefits that, if recognized, would impact the effective tax rate was \$136,397.

At January 31, 2012 and July 31, 2011, the Company had liabilities of \$30,503 and \$29,652, respectively, for potential payment of interest and penalties.

Based on recent discussion with various tax authorities and due to the expiration of various statutes of limitations, the Company believes that it is reasonably possible that the gross amount of unrecognized tax benefits may decrease within the next twelve months by a range of zero to \$61,496. As a result, the Company has reclassified \$57,126 of income taxes payable and \$17,870 of interest payable from non-current liabilities to current liabilities, respectively.

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NOTE 8 – COMPONENTS OF NET PERIODIC PENSION COST

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

|  | <b>Three Months Ended</b> |                     |                      |                     |                     |                     |
|--|---------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
|  | <b>U.S. Plans</b>         |                     | <b>Foreign Plans</b> |                     | <b>Total</b>        |                     |
|  | <b>Jan 31, 2012</b>       | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b>  | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b> | <b>Jan 31, 2011</b> |
| Service cost                             | \$ 2,231                  | \$ 2,015            | \$ 1,181             | \$ 1,302            | \$ 3,412            | \$ 3,317            |
| Interest cost                            | 3,051                     | 3,032               | 4,481                | 4,538               | 7,532               | 7,570               |
| Expected return on plan assets           | (2,303)                   | (2,203)             | (3,855)              | (3,524)             | (6,158)             | (5,727)             |
| Amortization of prior service cost       | 374                       | 456                 | (34)                 | 73                  | 340                 | 529                 |
| Recognized actuarial loss                | 1,546                     | 967                 | 1,297                | 1,403               | 2,843               | 2,370               |
| Gain due to curtailments and settlements | —                         | —                   | —                    | (24)                | —                   | (24)                |
| <b>Net periodic benefit cost</b>         | <b>\$ 4,899</b>           | <b>\$ 4,267</b>     | <b>\$ 3,070</b>      | <b>\$ 3,768</b>     | <b>\$ 7,969</b>     | <b>\$ 8,035</b>     |

|  | <b>Six Months Ended</b> |                     |                      |                     |                     |                     |
|--|-------------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
|  | <b>U.S. Plans</b>       |                     | <b>Foreign Plans</b> |                     | <b>Total</b>        |                     |
|  | <b>Jan 31, 2012</b>     | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b>  | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b> | <b>Jan 31, 2011</b> |
| Service cost                             | \$ 4,462                | \$ 4,030            | \$ 2,391             | \$ 2,589            | \$ 6,853            | \$ 6,619            |
| Interest cost                            | 6,647                   | 6,064               | 9,116                | 9,054               | 15,763              | 15,118              |
| Expected return on plan assets           | (4,606)                 | (4,406)             | (7,819)              | (7,036)             | (12,425)            | (11,442)            |
| Amortization of prior service cost       | 1,031                   | 912                 | (67)                 | 144                 | 964                 | 1,056               |
| Recognized actuarial loss                | 5,000                   | 1,934               | 2,632                | 2,802               | 7,632               | 4,736               |
| Gain due to curtailments and settlements | —                       | —                   | —                    | (47)                | —                   | (47)                |
| <b>Net periodic benefit cost</b>         | <b>\$ 12,534</b>        | <b>\$ 8,534</b>     | <b>\$ 6,253</b>      | <b>\$ 7,506</b>     | <b>\$ 18,787</b>    | <b>\$ 16,040</b>    |

NOTE 9 – STOCK-BASED PAYMENT

The Company currently has four stock-based employee and director compensation award types (Restricted Stock Unit, Stock Option Plans, Management Stock Purchase Plan ("MSPP"), and Employee Stock Purchase Plan ("ESPP")), which are more fully described in Note 15, Common Stock, to the consolidated financial statements included in the 2011 Form 10-K.

On December 14, 2011, the Company's shareholders approved the Pall Corporation 2012 Stock Compensation Plan (the "2012 Stock Plan"). The Board adopted the 2012 Stock Plan on September 26, 2011, subject to shareholder approval. The 2012 Stock Plan replaced the Pall Corporation 2005 Stock Compensation Plan (the "2005 Stock Plan").

Similar to the 2005 Stock Plan, the 2012 Stock Plan permits the Company to grant to its employees, including the Company's "named executive officers", a variety of equity compensation (that is, stock options, restricted shares, restricted units, performance shares and performance units). In addition, the 2012 Stock Plan provides that (i) in January of each calendar year, each member of the board of directors who is not on such grant date an employee of the Company will be granted a number of annual award units as determined by the board of directors, (ii) each person who is elected a director of the Company for the first time at an annual meeting and who is not an employee of the Company on the date of such annual meeting will receive a number of annual award units as determined by the board of directors, and (iii) at the discretion of a non-employee director, 100% of the cash fees paid to such director in a calendar year may be deferred in additional units which will be paid out either in one lump sum or in five equal annual installments upon the director ceasing to be a member of the board. Up to 7,100 shares are issuable under the 2012 Stock Plan. The number of shares available for awards under the 2012 Stock Plan will be reduced by one share for every one share subject to a stock option granted under the 2012 Stock Plan and will be reduced by 2.31 shares for every one share subject to a Full Value Award (i.e., restricted shares, restricted units, performance shares and performance units).

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The fair value of stock options is estimated using a Black-Scholes-Merton option pricing formula and are charged to earnings over the service periods during which the options are deemed to be earned; which is generally four years. The forms of options currently approved for use in awarding options provide that the options may not be exercised within one year from the date of grant, and expire if not fully exercised within seven years from the date of grant. Generally, in any year after the first year, the options can be exercised with respect to only up to 25% of the shares subject to the option, computed cumulatively.

The fair value of the restricted unit awards is determined by reference to the closing price of the Company's common stock on the date of the award, and are charged to earnings over the service periods during which the awards are deemed to be earned; four years, in the case of units awarded to employees and upon grant, in the case of the annual award units to non-employee directors. The annual award units granted to non-employee directors of the Company (and any related dividends paid in the form of additional units) are converted to shares once the director ceases to be a member of the board of directors, other than removal for cause. Restricted stock units granted to employees vest after the fourth anniversary of the date of grant. Dividends on unvested restricted stock units vest at the same time as the restricted units for which the dividends were recorded and are forfeitable if the participant does not vest in the original award.

The detailed components of stock-based compensation expense recorded in the condensed consolidated statements of earnings for the three and six months ended January 31, 2012 and January 31, 2011 are reflected in the table below.

|                        | Three Months Ended |                 | Six Months Ended |                  |
|------------------------|--------------------|-----------------|------------------|------------------|
|                        | Jan 31,<br>2012    | Jan 31,<br>2011 | Jan 31,<br>2012  | Jan 31,<br>2011  |
| Restricted stock units | \$ 4,724           | \$ 3,761        | \$ 9,510         | \$ 6,155         |
| Stock options          | 1,344              | 984             | 3,226            | 1,994            |
| ESPP                   | 1,479              | 1,168           | 2,682            | 2,156            |
| MSPP                   | 1,117              | 931             | 2,116            | 1,955            |
| Total                  | <u>\$ 8,664</u>    | <u>\$ 6,844</u> | <u>\$ 17,534</u> | <u>\$ 12,260</u> |

**NOTE 10 – 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 restricted stock units aggregating 829 and 136 shares were not included in the computation of diluted shares for the three months ended January 31, 2012 and January 31, 2011, respectively, because their effect would have been antidilutive. For the six months ended January 31, 2012 and January 31, 2011, 1,339 and 658 antidilutive shares, respectively, were excluded. The following is a reconciliation between basic shares outstanding and diluted shares outstanding:

|                            | Three Months Ended |                | Six Months Ended |                |
|----------------------------|--------------------|----------------|------------------|----------------|
|                            | Jan 31, 2012       | Jan 31, 2011   | Jan 31, 2012     | Jan 31, 2011   |
| Basic shares outstanding   | 116,196            | 116,476        | 115,997          | 116,405        |
| Effect of stock plans      | 1,718              | 1,790          | 1,558            | 1,697          |
| Diluted shares outstanding | <u>117,914</u>     | <u>118,266</u> | <u>117,555</u>   | <u>118,102</u> |



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**NOTE 11 – FAIR VALUE MEASUREMENTS**

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

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

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

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2012 :

|  | <b>Fair Value Measurements</b> |                |                |                |
|--|--------------------------------|----------------|----------------|----------------|
|  | <b>As of<br/>Jan 31, 2012</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Financial assets carried at fair value</b>      |                                |                |                |                |
| Money market funds                                 | \$ 3,662                       | \$ 3,662       | \$ —           | \$ —           |
| Available-for-sale securities:                     |                                |                |                |                |
| Equity securities                                  | 1,014                          | 1,014          | —              | —              |
| Debt securities:                                   |                                |                |                |                |
| Corporate  | 31,710                         | —              | 31,710         | —              |
| U.S. Treasury                                      | 9,694                          | —              | 9,694          | —              |
| Federal agency                                     | 28,962                         | —              | 28,962         | —              |
| Mortgage-backed                                    | 6,340                          | —              | 6,340          | —              |
| Municipal government                               | 1,000                          | —              | 1,000          | —              |
| Derivative financial instruments:                  |                                |                |                |                |
| Foreign exchange forward contracts                 | 2,968                          | —              | 2,968          | —              |
| <b>Financial liabilities carried at fair value</b> |                                |                |                |                |
| Derivative financial instruments:                  |                                |                |                |                |
| Foreign exchange forward contracts                 | 934                            | —              | 934            | —              |

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

|  | <b>Fair Value Measurements</b> |                |                |                |
|--|--------------------------------|----------------|----------------|----------------|
|  | <b>As of<br/>Jul 31, 2011</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <b>Financial assets carried at fair value</b>      |                                |                |                |                |
| Money market funds                                 | \$ 4,575                       | \$ 4,575       | \$ —           | \$ —           |
| Available-for-sale securities:                     |                                |                |                |                |
| Equity securities                                  | 12,064                         | 12,064         | —              | —              |
| Debt securities:                                   |                                |                |                |                |
| Corporate  | 32,020                         | —              | 32,020         | —              |
| U.S. Treasury                                      | 10,210                         | —              | 10,210         | —              |
| Federal agency                                     | 29,404                         | —              | 29,404         | —              |
| Mortgage-backed                                    | 6,356                          | —              | 6,356          | —              |
| Municipal government                               | 1,002                          | —              | 1,002          | —              |
| Derivative financial instruments:                  |                                |                |                |                |
| Foreign exchange forward contracts                 | 1,456                          | —              | 1,456          | —              |
| <b>Financial liabilities carried at fair value</b> |                                |                |                |                |
| Derivative financial instruments:                  |                                |                |                |                |
| Foreign exchange forward contracts                 | 478                            | —              | 478            | —              |

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

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

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

In connection with the acquisition in the first quarter of fiscal year 2012, the Company recorded the fair value of the intangible assets acquired, which were valued using the income approach. The valuation employed level 3 inputs, as defined in the fair value hierarchy.

**NOTE 12 – INVESTMENT SECURITIES**

The following is a summary of the Company's available-for-sale investment securities by category which are classified within other non-current assets in the Company's condensed consolidated balance sheets. Contractual maturity dates of debt securities held by the trust at January 31, 2012 range from 2012 to 2044.

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|                         | Cost/<br>Amortized<br>Cost Basis | Fair Value       | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses | Net<br>Unrealized<br>Holding<br>Gains |
|-------------------------|----------------------------------|------------------|---|--|---------------------------------------|
| <b>January 31, 2012</b> |                                  |                  |   |  |                                       |
| Equity securities       | \$ 1,011                         | \$ 1,014         | \$ 3                                    | \$ —                                     | \$ 3                                  |
| Debt securities:        |                                  |                  |   |  |                                       |
| Corporate               | 29,799                           | 31,710           | 1,945                                   | (34)                                     | 1,911                                 |
| U.S. Treasury           | 8,821                            | 9,694            | 873                                     | —  | 873                                   |
| Federal agency          | 27,120                           | 28,962           | 1,842                                   | —  | 1,842                                 |
| Mortgage-backed         | 6,155                            | 6,340            | 215                                     | (30)                                     | 185                                   |
| Municipal government    | 1,000                            | 1,000            | —                                       | —  | —                                     |
|                         | <u>\$ 73,906</u>                 | <u>\$ 78,720</u> | <u>\$ 4,878</u>                         | <u>\$ (64)</u>                           | <u>\$ 4,814</u>                       |

|                      |                  |                  |                  |                |                  |
|----------------------|------------------|------------------|------------------|----------------|------------------|
| <b>July 31, 2011</b> |                  |                  |                  |                |                  |
| Equity securities    | \$ 2,381         | \$ 12,064        | \$ 9,683         | \$ —           | \$ 9,683         |
| Debt securities:     |                  |                  |                  |                |                  |
| Corporate            | 30,239           | 32,020           | 1,814            | (33)           | 1,781            |
| U.S. Treasury        | 9,544            | 10,210           | 666              | —              | 666              |
| Federal agency       | 28,042           | 29,404           | 1,362            | —              | 1,362            |
| Mortgage-backed      | 6,242            | 6,356            | 144              | (30)           | 114              |
| Municipal government | 1,000            | 1,002            | 2                | —              | 2                |
|                      | <u>\$ 77,448</u> | <u>\$ 91,056</u> | <u>\$ 13,671</u> | <u>\$ (63)</u> | <u>\$ 13,608</u> |

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

|                         | Less than 12 months |                                 | 12 months or greater |                                 | Total           |                                 |
|-------------------------|---------------------|---------------------------------|----------------------|---------------------------------|-----------------|---------------------------------|
|                         | Fair Value          | Gross Unrealized Holding Losses | Fair Value           | Gross Unrealized Holding Losses | Fair Value      | Gross Unrealized Holding Losses |
| <b>January 31, 2012</b> |                     |                                 |                      |                                 |                 |                                 |
| Debt securities:        |                     |                                 |                      |                                 |                 |                                 |
| Mortgage-backed         | \$ 697              | \$ 3                            | \$ 1,505             | \$ 27                           | \$ 2,202        | \$ 30                           |
| Corporate               | 2,589               | 34                              | —                    | —                               | 2,589           | 34                              |
|                         | <u>\$ 3,286</u>     | <u>\$ 37</u>                    | <u>\$ 1,505</u>      | <u>\$ 27</u>                    | <u>\$ 4,791</u> | <u>\$ 64</u>                    |

|                      | Less than 12 months |                                 | 12 months or greater |                                 | Total           |                                 |
|----------------------|---------------------|---------------------------------|----------------------|---------------------------------|-----------------|---------------------------------|
|                      | Fair Value          | Gross Unrealized Holding Losses | Fair Value           | Gross Unrealized Holding Losses | Fair Value      | Gross Unrealized Holding Losses |
| <b>July 31, 2011</b> |                     |                                 |                      |                                 |                 |                                 |
| Debt securities:     |                     |                                 |                      |                                 |                 |                                 |
| Mortgage-backed      | \$ 1,502            | \$ 30                           | \$ —                 | \$ —                            | \$ 1,502        | \$ 30                           |
| Corporate            | 1,985               | 33                              | —                    | —                               | 1,985           | 33                              |
|                      | <u>\$ 3,487</u>     | <u>\$ 63</u>                    | <u>\$ —</u>          | <u>\$ —</u>                     | <u>\$ 3,487</u> | <u>\$ 63</u>                    |

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The following table shows the proceeds and gross gains and losses from the sale of available-for-sale investments for the three and six months ended January 31, 2012 and January 31, 2011 :

|                                | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|--------------------------------|---------------------------|---------------------|-------------------------|---------------------|
|                                | <b>Jan 31, 2012</b>       | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b>     | <b>Jan 31, 2011</b> |
| Proceeds from sales            | \$ 5,180                  | \$ 10,670           | \$ 21,227               | \$ 14,212           |
| Realized gross gains on sales  | 115                       | 514                 | 9,478                   | 694                 |
| Realized gross losses on sales | —                         | 12                  | 16                      | 12                  |

**NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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

Foreign Exchange Related:

a. Derivatives Not Designated as Hedging Instruments

The risk management objective of holding foreign exchange derivatives is to mitigate volatility to earnings and cash flows due to changes in foreign exchange rates. The Company and its subsidiaries conduct transactions in currencies other than their functional currencies. These transactions include non-functional intercompany and external sales as well as intercompany and external purchases. The Company uses foreign exchange forward contracts, matching the notional amounts and durations of the receivables and payables resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by the changes in fair value of these receivables and payables from fluctuating foreign exchange rates. The notional amount of foreign currency forward contracts entered into during the three and six months ended January 31, 2012 was \$489,067 and \$1,371,611, respectively. The notional amount of foreign currency forward contracts outstanding as of January 31, 2012 was \$255,994.

b. Net Investment Hedges

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

Interest Rate Related:

As of January 31, 2012, there are no existing interest rate related derivatives.

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

|  | <b>Asset Derivatives</b>      |                   | <b>Liability Derivatives</b>           |                   |
|--|-------------------------------|-------------------|--|-------------------|
|  | <b>Balance Sheet Location</b> | <b>Fair Value</b> | <b>Balance Sheet Location</b>          | <b>Fair Value</b> |
| <b>January 31, 2012</b>  |                               |                   |  |                   |
| <b>Derivatives designated as hedging instruments</b>               |                               |                   |  |                   |
| Not applicable (N/A)   |                               |                   |  |                   |
| <b>Derivatives not designated as hedging instruments</b>           |                               |                   |  |                   |
| Foreign exchange forward contracts                                 | Other current assets          | \$ 2,968          | Other current liabilities              | \$ 934            |
| <b>Total derivatives</b>   |                               | <u>\$ 2,968</u>   |  | <u>\$ 934</u>     |
| <b>Nonderivative instruments designated as hedging instruments</b> |                               |                   |  |                   |
| Net investment hedge   |                               |                   | Long-term debt, net of current portion | <u>\$ 117,891</u> |

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

For the three months ended January 31, 2012 and January 31, 2011, the Company had no derivative financial instruments outstanding that were designated as hedging instruments.

The amounts of the gains and losses related to the Company's derivative financial instruments not designated as hedging instruments for the three months ended January 31, 2012 and January 31, 2011 are presented as follows:

| Location of Gain or (Loss) Recognized in Earnings on Derivatives | Amount of Gain or (Loss) Recognized in Earnings on Derivatives |              |                  |              |            |
|--|--|--------------|------------------|--------------|------------|
|  | Three Months Ended   |              | Six Months Ended |              |            |
|  | Jan 31, 2012   | Jan 31, 2011 | Jan 31, 2012     | Jan 31, 2011 |            |
| <b>Derivatives not designated as hedging relationships</b>       |  |              |                  |              |            |
| Foreign exchange forward contracts                               | Selling, general and administrative expenses                   | \$ 4,747     | \$ (2,015)       | \$ 6,162     | \$ (4,350) |

The amounts of the gains and losses related to the Company's nonderivative financial instruments designated as hedging instruments for the three and six months ended January 31, 2012 and January 31, 2011 are presented as follows:

| Nonderivatives designated as hedging relationships | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) |              | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) <sup>(a)</sup> |              |
|--|---|--------------|--|---|--------------|
|  | Three Months Ended  |              |  | Three Months Ended  |              |
|  | Jan 31, 2012  | Jan 31, 2011 |  | Jan 31, 2012  | Jan 31, 2011 |
| Net investment hedge                               | \$ 513  | \$ 1,445     | N/A  | \$ —  | \$ —         |

(a) There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship or related to the amount excluded from the assessment of hedge effectiveness for the three months ended January 31, 2012 and January 31, 2011 .

| Nonderivatives designated as hedging relationships | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) |              | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) <sup>(a)</sup> |              |
|--|---|--------------|--|---|--------------|
|  | Six Months Ended  |              |  | Six Months Ended  |              |
|  | Jan 31, 2012  | Jan 31, 2011 |  | Jan 31, 2012  | Jan 31, 2011 |
| Net investment hedge                               | \$ (1,336)  | \$ (3,468)   | N/A  | \$ —  | \$ —         |

(a) There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship or related to the amount excluded from the assessment of hedge effectiveness for the six months ended January 31, 2012 and January 31, 2011 .



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

NOTE 14 – COMPREHENSIVE INCOME

|   | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|---|---------------------------|---------------------|-------------------------|---------------------|
|   | <b>Jan 31, 2012</b>       | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b>     | <b>Jan 31, 2011</b> |
| Net earnings  | \$ 84,729                 | \$ 75,664           | \$ 154,184              | \$ 147,073          |
| Unrealized translation adjustment                   | (40,736)                  | (7,705)             | (65,670)                | 38,277              |
| Income taxes  | (1,112)                   | (717)               | (310)                   | 3,933               |
| Unrealized translation adjustment, net              | (41,848)                  | (8,422)             | (65,980)                | 42,210              |
| Pension liability adjustment                        | 7,113                     | 3,850               | 13,367                  | 4,532               |
| Income taxes  | (3,559)                   | (1,217)             | (5,582)                 | (1,476)             |
| Pension liability adjustment, net                   | 3,554                     | 2,633               | 7,785                   | 3,056               |
| Change in unrealized investment (losses)/gains      | 812                       | (1,452)             | (8,794)                 | 560                 |
| Income taxes  | (254)                     | 523                 | 3,204                   | (201)               |
| Change in unrealized investment (losses)/gains, net | 558                       | (929)               | (5,590)                 | 359                 |
| Total comprehensive income                          | <u>\$ 46,993</u>          | <u>\$ 68,946</u>    | <u>\$ 90,399</u>        | <u>\$ 192,698</u>   |

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

|  | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|--|---------------------------|---------------------|-------------------------|---------------------|
|  | <b>Jan 31, 2012</b>       | <b>Jan 31, 2011</b> | <b>Jan 31, 2012</b>     | <b>Jan 31, 2011</b> |
| Unrealized (losses)/gains arising during the period            | \$ 778                    | \$ (1,452)          | \$ 403                  | \$ 560              |
| Income taxes   | (242)                     | 523                 | (270)                   | (201)               |
| Net unrealized (losses)/gains arising during the period        | 536                       | (929)               | 133                     | 359                 |
| Reclassification adjustment for gains included in net earnings | 22                        | —                   | (5,723)                 | —                   |
| Change in unrealized investment (losses)/gains, net            | <u>\$ 558</u>             | <u>\$ (929)</u>     | <u>\$ (5,590)</u>       | <u>\$ 359</u>       |

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

NOTE 15 – SEGMENT INFORMATION

The Company’s reportable segments, which are also its operating segments, consist of the Company’s Life Sciences and Industrial businesses.

The following table presents sales and segment profit by business segment reconciled to earnings before income taxes, for the three and six months ended January 31, 2012 and January 31, 2011.

|                              | Three Months Ended |                   | Six Months Ended    |                     |
|------------------------------|--------------------|-------------------|---------------------|---------------------|
|                              | Jan 31, 2012       | Jan 31, 2011      | Jan 31, 2012        | Jan 31, 2011        |
| <b>SALES:</b>                |                    |                   |                     |                     |
| Life Sciences                | \$ 357,165         | \$ 334,214        | \$ 713,298          | \$ 645,794          |
| Industrial                   | 340,816            | 311,018           | 690,324             | 604,915             |
| Total                        | <u>\$ 697,981</u>  | <u>\$ 645,232</u> | <u>\$ 1,403,622</u> | <u>\$ 1,250,709</u> |
| <b>SEGMENT PROFIT:</b>       |                    |                   |                     |                     |
| Life Sciences                | \$ 88,706          | \$ 83,650         | \$ 177,688          | \$ 156,838          |
| Industrial                   | 52,480             | 47,942            | 100,621             | 93,281              |
| Total segment profit         | 141,186            | 131,592           | 278,309             | 250,119             |
| Corporate Services Group     | 17,678             | 16,980            | 33,379              | 29,301              |
| Operating profit             | 123,508            | 114,612           | 244,930             | 220,818             |
| ROTC                         | 5,813              | 4,789             | 28,797              | 6,198               |
| Interest expense, net        | 5,386              | 5,814             | 11,331              | 13,108              |
| Earnings before income taxes | <u>\$ 112,309</u>  | <u>\$ 104,009</u> | <u>\$ 204,802</u>   | <u>\$ 201,512</u>   |

NOTE 16 – SUBSEQUENT EVENT

On March 1, 2012 (the “Closing Date”), the Company acquired 100% of the outstanding capital stock of ForteBio®, Inc. (“ForteBio”), a privately held provider of advanced analytical systems that accelerate the discovery and development of biotech drugs. On the Closing Date, the Company paid a cash purchase price of approximately \$142,500, net of cash acquired, subject to a post closing working capital adjustment. Pall ForteBio Corp., the new company, is headquartered in Menlo Park, California, and has wholly owned subsidiaries in London, England and Shanghai, China. This acquisition is not expected to have a material impact on the Company's financial position or results of operations for fiscal year 2012.



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

### **Forward-Looking Statements and Risk Factors**

The following discussion should be read together with the accompanying condensed consolidated financial statements and notes thereto and other financial information in this Form 10-Q and in the Pall Corporation and its subsidiaries (hereinafter collectively called the “Company”) Annual Report on Form 10-K for the fiscal year ended July 31, 2011 (“2011 Form 10-K”). The discussion under the subheading “Review of Operating Segments” below is in local currency (i.e., had exchange rates not changed year over year) unless otherwise indicated. Company management considers local currency change to be an important measure because by excluding the impact of volatility of exchange rates, underlying volume change is clearer. Dollar amounts discussed below are in thousands, unless otherwise indicated, except per share dollar amounts. In addition, per share dollar amounts are discussed on a diluted basis. The Company utilizes certain estimates and assumptions affecting the reported financial information as well as to quantify the impact of various significant factors that contribute to the changes in the Company’s periodic results included in the discussion below.

The matters discussed in this Quarterly Report contain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that address activities, events or developments that the Company or management intends, expects, projects, believes or anticipates will or may occur in the future. All statements regarding future performance, earnings projections, earnings guidance, management’s expectations about its future cash needs and effective tax rate, and other future events or developments are forward-looking statements. Forward-looking statements are those that use terms such as “may,” “will,” “expect,” “believe,” “intend,” “should,” “could,” “anticipate,” “estimate,” “forecast,” “project,” “plan,” “predict,” “potential,” and similar expressions. Forward-looking statements contained in this and other written and oral reports are based on management’s assumptions and assessments in light of past experience and trends, current conditions, expected future developments and other relevant factors.

The Company’s forward-looking statements are subject to risks and uncertainties and are not guarantees of future performance, and actual results, developments and business decisions may differ materially from those envisaged by the Company’s forward-looking statements. Such risks and uncertainties include, but are not limited to, those discussed in Part I–Item 1A.–Risk Factors in the 2011 Form 10-K, and other reports the Company files with the Securities and Exchange Commission, including: the impact of legislative, regulatory and political developments globally; the impact of the uncertain global economic environment; the extent to which adverse economic conditions may affect our sales volume and results; changes in product mix, market mix and product pricing, particularly relating to the expansion of the systems business; demand for our products and business relationships with key customers and suppliers, which may be impacted by their cash flow and payment practices; delays or cancellations in shipments; our ability to develop and commercialize new technologies; our ability to obtain regulatory approval or market acceptance of new technologies; our ability to successfully complete our business improvement initiatives, which include supply chain enhancements and integrating and upgrading our information systems; the effect of a serious disruption in our information systems; fluctuations in our effective tax rate; volatility in foreign currency exchange rates, interest rates and energy costs and other macroeconomic challenges currently affecting us; increase in costs of manufacturing and operating costs; our ability to achieve and sustain the savings anticipated from cost reduction and gross margin improvement initiatives; our ability to attract and retain management talent; the impact of pricing and other actions by competitors; the effect of litigation and regulatory inquiries associated with the restatement of our prior period financial statements; the effect of the restrictive covenants in our debt facilities; our ability to enforce patents and protect proprietary products and manufacturing techniques; and our ability to successfully complete or integrate any acquisitions. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company makes these statements as of the date of this disclosure and undertakes no obligation to update them, whether as a result of new information, future developments or otherwise.

#### *Market Reorganization*

Effective in the second quarter of fiscal year 2012, the Company reorganized its Industrial markets. Machinery & Equipment submarket (previously part of the Aeropower market) and Energy & Water are now being combined and are reported as the Process Technologies market. With the exclusion of Machinery & Equipment from Aeropower, Aerospace is now the stand-alone descriptor for that part of the business. Sales information by market for prior periods has been restated to reflect these changes. All discussions and amounts reported in this filing are based on the reorganized structure.

#### *Review of Consolidated Results*

Sales in the second quarter of fiscal year 2012 increased 8.2% to \$697,981 from \$645,232 in the second quarter of fiscal year 2011. Exchange rates used to translate foreign subsidiary results into U.S. Dollars increased reported sales by \$948, primarily due to the weakening of the U.S. Dollar against the Japanese Yen (“JPY”) partly offset by the strengthening of the U.S. Dollar against the Euro. In local currency, sales increased 8.0%. Sales in the six months increased 12.2% to \$1,403,622 from \$1,250,709 in the

six months of fiscal year 2011. Exchange rates used to translate foreign subsidiary results into U.S. Dollars increased reported sales by \$29,149 primarily related to the weakening of the U.S. Dollar in the first quarter against various Asian currencies (the JPY, Chinese Renminbi, Australian Dollar and Korean Won), as well as the Euro. In local currency, sales increased 9.9%. Increased pricing contributed \$4,682, or about 1%, to overall sales growth in the quarter and \$7,808, or about 1% in the six months, reflecting increases in both segments.

Life Sciences segment sales increased 7.0% (in local currency) in the second quarter and 8.3% in the six months. Industrial segment sales increased 9.2% (in local currency) in the second quarter and 11.6% in the six months. For a detailed discussion of sales by segment, refer to the section "Review of Operating Segments" below.

Consumable filtration products sales (including appurtenant hardware) increased 7.5% (in local currency) in the second quarter reflecting growth of 5.4% in Life Sciences and 10.0% in Industrial. In the six months, consumable filtration products sales (including appurtenant hardware) increased 8.2% (in local currency) reflecting growth of 6.5% in Life Sciences and 10.1% in Industrial.

Systems sales increased 12.2% (in local currency) in the second quarter reflecting growth of 27.6% in Life Sciences and 4.8% in Industrial. In the six months, systems sales increased 25.5% (in local currency) reflecting growth of 36.5% in Life Sciences and 20.7% in Industrial. Systems sales represented 11.3% of total sales in the second quarter of fiscal year 2012 compared to 11.0% in the second quarter of fiscal year 2011. Systems sales represented 11.3% of total sales in the six months compared to 10.0% in the six months of fiscal year 2011.

Sales in emerging markets grew almost 21% in the second quarter and about 29% in the six months, and represented approximately 20% of total sales in both the quarter and six months. Emerging markets are defined as high growth and/or developing areas of the world in which the Company has focused growth resources. In the Americas, emerging markets include Latin America, primarily the countries of Brazil, Argentina and Mexico. In Europe, emerging markets include Eastern European countries, primarily Russia, Turkey and Poland, as well as various countries in the Middle East and Africa. In Asia, emerging markets primarily include the countries of China, India, Philippines, Indonesia and Vietnam.

Gross margin in the second quarter of fiscal year 2012 increased 10 basis points to 51.6% from 51.5% in the second quarter of fiscal year 2011. This reflects an increase in gross margin in the Life Sciences segment of 60 basis points partly offset by a decrease in gross margin in the Industrial segment of 40 basis points. In the six months, gross margin decreased 30 basis points to 51.0% from 51.3% in the six months of fiscal year 2011. This reflects a decrease in gross margin in the Industrial segment of 130 basis points partly offset by an increase in gross margin in the Life Sciences segment of 100 basis points. For a detailed discussion of the factors impacting gross margin by segment, refer to the section "Review of Operating Segments" below.

The Company has risks to gross margin from the fluctuation of the costs of products that are sourced in a currency different that the currency they are sold in (transactional impact). With the Company's current manufacturing footprint, a significant portion of products purchased by the Company in the Eurozone are sourced outside of the Eurozone. Sales in the Eurozone are approximately 25% of total Company sales. The Company currently estimates that the transactional impact of a 5% fluctuation in the U.S. Dollar or the Pound Sterling relationship to the Euro would impact the Company's consolidated gross margin by a range of approximately 40 - 60 basis points. While these currency pair relationships remained relatively stable during the first six months of fiscal year 2012 compared to fiscal year 2011, as at January 31, 2012 the Euro had depreciated approximately 3.5% against the U.S. Dollar and 2.5% against the Pound Sterling.

Selling, general and administrative ("SG&A") expenses in the second quarter of fiscal year 2012 increased by \$18,094, or 9.2% (an increase of \$18,015, or 9.1%, in local currency). In the six months, SG&A expenses increased by \$49,692, or 13.1% (an increase of \$42,178, or 11.1%, in local currency). These increases are reflected in both segments and the Corporate Services Group. Selling expenses increased approximately 5% in the quarter and 11% in the six months. General and administrative ("G&A") expenses increased approximately 15% and 16% in the quarter and six months, respectively. In addition to inflationary increases in payroll and related costs affecting both selling and G&A expenses, the overall increase in SG&A (in local currency) in the quarter and six months primarily reflects:

- increased selling expenses, and to a lesser extent G&A expenses, driven by resource deployment related to organic regional expansion in Latin America, Middle East and Asia, impacting both segments,
- costs related to bringing Industrial into the European and Asian hubs,
- incremental costs related to an acquisition in Brazil (selling and G&A), impacting both segments, and
- project related costs in information technology and other infrastructure.

As a percentage of sales, SG&A expenses were 30.8% compared to 30.5% in the second quarter of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the quarter were as follows:

- selling expenses were 16.9% compared to 17.5% in the second quarter of fiscal year 2011, and
- G&A expenses were 13.9% compared to 13.1% in the second quarter of fiscal year 2011.

In the six months, SG&A expenses were 30.6% compared to 30.3% in the six months of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the six months were as follows:

- selling expenses were 17.0% compared to 17.3% in the six months of fiscal year 2011, and
- G&A expenses were 13.5% compared to 13.1% in the six months of fiscal year 2011.

For a discussion of SG&A by business, refer to the section “Review of Operating Segments” below.

Research and development (“R&D”) expenses were \$21,583 in the second quarter of fiscal year 2012 compared to \$20,773 in the second quarter of fiscal year 2011, an increase of \$810, or 3.9% (\$814, or 3.9% in local currency). The increase in R&D expenses in local currency in the quarter reflects increased spending in the Life Sciences segment partly offset by a decline in the Industrial segment. As a percentage of sales, R&D expenses were 3.1% in the quarter compared to 3.2% in the second quarter of fiscal year 2011. In the six months, R&D expenses were \$42,521 compared to \$40,942 in the six months of fiscal year 2011, an increase of \$1,579, or 3.9% (\$1,330, or 3.2% in local currency). The increase in R&D expenses in local currency in the six months reflects increased spending in both segments. As a percentage of sales, R&D expenses were 3.0% in the six months compared to 3.3% in the six months of fiscal year 2011. For a discussion of R&D expenses by business, refer to the section “Review of Operating Segments” below.

In the second quarter and six months of fiscal year 2012, the Company recorded restructuring and other charges (“ROTC”) of \$5,813 and \$28,797, respectively. ROTC in the quarter and six months was primarily comprised of severance, professional fees and other costs related to the Company’s cost reduction initiatives, primarily in the Industrial segment, as well as charges related to certain employment contract obligations.

In the second quarter and six months of fiscal year 2011, the Company recorded ROTC of \$4,789 and \$6,198, respectively. ROTC in the quarter and six months of fiscal year 2011 was primarily comprised of severance, professional fees and other costs related to the Company’s cost reduction initiatives partly offset by the receipt of insurance claim payments. The severance costs recorded relate to the closure of an Industrial manufacturing facility in Europe.

The details of ROTC for the three and six months ended January 31, 2012 and January 31, 2011 as well as the activity related to restructuring liabilities that were recorded in the six months ended January 31, 2012, and in fiscal years 2011, 2010 and 2009, can be found in Note 6, Restructuring and Other Charges, Net, to the accompanying condensed consolidated financial statements.

Earnings before interest and income taxes (“EBIT”) were \$117,695 in the second quarter of fiscal year 2012, an increase of 7.2% compared to \$109,823 in the second quarter of fiscal year 2011. The impact of foreign currency translation increased EBIT by approximately \$1,466, or 1.4% in the second quarter of fiscal year 2012. As a percentage of sales, EBIT were 16.9% compared to 17.0% in the second quarter of fiscal year 2011. In the six months, EBIT were \$216,133, an increase of almost 1% compared to \$214,620 in the six months of fiscal year 2011. The impact of foreign currency translation increased EBIT by approximately \$9,840, or 4.6% in the six months of fiscal year 2012. As a percentage of sales, EBIT were 15.4% compared to 17.2% in the six months of fiscal year 2011.

Net interest expense in the second quarter of fiscal year 2012 was \$5,386 compared to \$5,814 in the second quarter of fiscal year 2011. Net interest expense in the six months was \$11,331 compared to \$13,108 in the six months of fiscal year 2011. The decrease in net interest expense in the six months primarily reflects a reduction in interest rates compared to the six months of fiscal year 2011 as a result of the Company’s commercial paper program that was established in the second quarter of fiscal year 2011, as well as an increase in interest income.

The Company’s effective tax rate for the second quarter of fiscal years 2012 and 2011 was 24.6% and 27.3%, respectively. The Company’s effective tax rate for the six months ended January 31, 2012 and January 31, 2011 was 24.7% and 27.0%, respectively. This decrease in the effective tax rate for the second quarter and first six months of fiscal year 2012 reflects tax benefits associated with the establishment of the Company’s Asian headquarters in Singapore and the expansion of the Company’s European headquarters in Switzerland. The Company expects its effective tax rate for the full fiscal year 2012 to be approximately 24.5%. The actual effective tax rate for the full fiscal year 2012 may differ materially based on several factors, including the geographical mix of earnings in tax jurisdictions (including the impact of ROTC and discrete items), enacted tax laws, the resolution of tax audits, 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 other factors.

Net earnings in the second quarter of fiscal year 2012 were \$84,729, or 72 cents per share, compared with net earnings of \$75,664, or 64 cents in the second quarter of fiscal year 2011. In the six months, net earnings were \$154,184, or \$1.31 per share, compared with net earnings of \$147,073, or \$1.25 in the six months of fiscal year 2011. Company management estimates that foreign currency translation increased earnings per share by 1 cent in the second quarter and 6 cents in the six months of fiscal year 2012.

*Review of Operating Segments*

The following table presents sales and segment profit by business segment, reconciled to earnings before income taxes, for the three and six months ended January 31, 2012 and January 31, 2011.

| <b>Three Months Ended</b>    | <b>Jan 31, 2012</b> | <b>%<br/>Margin</b> | <b>Jan 31, 2011</b> | <b>%<br/>Margin</b> | <b>%<br/>Change</b> |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>SALES:</b>                |                     |                     |                     |                     |                     |
| Life Sciences                | \$ 357,165          |                     | \$ 334,214          |                     | 6.9                 |
| Industrial                   | 340,816             |                     | 311,018             |                     | 9.6                 |
| Total                        | <u>\$ 697,981</u>   |                     | <u>\$ 645,232</u>   |                     | 8.2                 |
| <b>SEGMENT PROFIT :</b>      |                     |                     |                     |                     |                     |
| Life Sciences                | \$ 88,706           | 24.8%               | \$ 83,650           | 25.0%               | 6.0                 |
| Industrial                   | 52,480              | 15.4%               | 47,942              | 15.4%               | 9.5                 |
| Total segment profit         | 141,186             | 20.2%               | 131,592             | 20.4%               | 7.3                 |
| Corporate Services Group     | 17,678              |                     | 16,980              |                     | 4.1                 |
| Operating profit             | 123,508             | 17.7%               | 114,612             | 17.8%               | 7.8                 |
| ROTC, net                    | 5,813               |                     | 4,789               |                     |                     |
| Interest expense, net        | 5,386               |                     | 5,814               |                     |                     |
| Earnings before income taxes | <u>\$ 112,309</u>   |                     | <u>\$ 104,009</u>   |                     |                     |

| <b>Six Months Ended</b>      | <b>Jan 31, 2012</b> | <b>%<br/>Margin</b> | <b>Jan 31, 2011</b> | <b>%<br/>Margin</b> | <b>%<br/>Change</b> |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>SALES:</b>                |                     |                     |                     |                     |                     |
| Life Sciences                | \$ 713,298          |                     | \$ 645,794          |                     | 10.5                |
| Industrial                   | 690,324             |                     | 604,915             |                     | 14.1                |
| Total                        | <u>\$ 1,403,622</u> |                     | <u>\$ 1,250,709</u> |                     | 12.2                |
| <b>SEGMENT PROFIT :</b>      |                     |                     |                     |                     |                     |
| Life Sciences                | \$ 177,688          | 24.9%               | \$ 156,838          | 24.3%               | 13.3                |
| Industrial                   | 100,621             | 14.6%               | 93,281              | 15.4%               | 7.9                 |
| Total segment profit         | 278,309             | 19.8%               | 250,119             | 20.0%               | 11.3                |
| Corporate Services Group     | 33,379              |                     | 29,301              |                     | 13.9                |
| Operating profit             | 244,930             | 17.4%               | 220,818             | 17.7%               | 10.9                |
| ROTC, net                    | 28,797              |                     | 6,198               |                     |                     |
| Interest expense, net        | 11,331              |                     | 13,108              |                     |                     |
| Earnings before income taxes | <u>\$ 204,802</u>   |                     | <u>\$ 201,512</u>   |                     |                     |

**Life Sciences:**

Presented below are Summary Statements of Segment Profit for the Life Sciences segment for the three and six months ended January 31, 2012 and January 31, 2011:

| <b>Three Months Ended</b> | <b>Jan 31, 2012</b> | <b>% of Sales</b> | <b>Jan 31, 2011</b> | <b>% of Sales</b> | <b>% Change</b> |
|---------------------------|---------------------|-------------------|---------------------|-------------------|-----------------|
| Sales                     | \$ 357,165          |                   | \$ 334,214          |                   | 6.9             |
| Cost of sales             | 157,559             | 44.1              | 149,488             | 44.7              | 5.4             |
| Gross margin              | 199,606             | 55.9              | 184,726             | 55.3              | 8.1             |
| SG&A                      | 96,642              | 27.1              | 88,188              | 26.4              | 9.6             |
| R&D                       | 14,258              | 4.0               | 12,888              | 3.9               | 10.6            |
| Segment profit            | \$ 88,706           | 24.8              | \$ 83,650           | 25.0              | 6.0             |

| <b>Six Months Ended</b> | <b>Jan 31, 2012</b> | <b>% of Sales</b> | <b>Jan 31, 2011</b> | <b>% of Sales</b> | <b>% Change</b> |
|-------------------------|---------------------|-------------------|---------------------|-------------------|-----------------|
| Sales                   | \$ 713,298          |                   | \$ 645,794          |                   | 10.5            |
| Cost of sales           | 314,809             | 44.1              | 291,149             | 45.1              | 8.1             |
| Gross margin            | 398,489             | 55.9              | 354,645             | 54.9              | 12.4            |
| SG&A                    | 193,238             | 27.1              | 171,662             | 26.6              | 12.6            |
| R&D                     | 27,563              | 3.9               | 26,145              | 4.0               | 5.4             |
| Segment profit          | \$ 177,688          | 24.9              | \$ 156,838          | 24.3              | 13.3            |

The tables below present sales by market and region within the Life Sciences segment for the three and six months ended January 31, 2012 and January 31, 2011, including the effect of exchange rates for comparative purposes.

| <b>Three Months Ended</b> | <b>Jan 31, 2012</b> | <b>Jan 31, 2011</b> | <b>% Change</b> | <b>Exchange Rate Impact</b> | <b>% Change in Local Currency</b> |
|---------------------------|---------------------|---------------------|-----------------|-----------------------------|-----------------------------------|
| <b>By Market</b>          |                     |                     |                 |                             |                                   |
| BioPharmaceuticals        | \$ 201,647          | \$ 179,550          | 12.3            | \$ (61)                     | 12.3                              |
| Medical                   | 102,152             | 102,305             | (0.1)           | 25                          | (0.2)                             |
| Food & Beverage           | 53,366              | 52,359              | 1.9             | (273)                       | 2.4                               |
| Total Life Sciences       | \$ 357,165          | \$ 334,214          | 6.9             | \$ (309)                    | 7.0                               |
| <b>By Region</b>          |                     |                     |                 |                             |                                   |
| Americas                  | \$ 120,446          | \$ 118,477          | 1.7             | \$ (477)                    | 2.1                               |
| Europe                    | 166,373             | 153,725             | 8.2             | (1,495)                     | 9.2                               |
| Asia                      | 70,346              | 62,012              | 13.4            | 1,663                       | 10.8                              |
| Total Life Sciences       | \$ 357,165          | \$ 334,214          | 6.9             | \$ (309)                    | 7.0                               |

| Six Months Ended    | Jan 31, 2012      | Jan 31, 2011      | % Change | Exchange Rate Impact | % Change in Local Currency |
|---------------------|-------------------|-------------------|----------|----------------------|----------------------------|
| <b>By Market</b>    |                   |                   |          |                      |                            |
| BioPharmaceuticals  | \$ 397,659        | \$ 340,959        | 16.6     | \$ 8,980             | 14.0                       |
| Medical             | 206,254           | 200,847           | 2.7      | 3,087                | 1.2                        |
| Food & Beverage     | 109,385           | 103,988           | 5.2      | 2,123                | 3.1                        |
| Total Life Sciences | <u>\$ 713,298</u> | <u>\$ 645,794</u> | 10.5     | <u>\$ 14,190</u>     | 8.3                        |
| <b>By Region</b>    |                   |                   |          |                      |                            |
| Americas            | \$ 244,765        | \$ 228,128        | 7.3      | \$ (254)             | 7.4                        |
| Europe              | 333,563           | 299,113           | 11.5     | 8,249                | 8.8                        |
| Asia                | 134,970           | 118,553           | 13.8     | 6,195                | 8.6                        |
| Total Life Sciences | <u>\$ 713,298</u> | <u>\$ 645,794</u> | 10.5     | <u>\$ 14,190</u>     | 8.3                        |

Life Sciences segment sales increased 7.0% in the second quarter compared to the second quarter of fiscal year 2011, reflecting growth in consumables and systems sales of 5.4% and 27.6%, respectively. Sales in emerging markets grew about 8% while sales in mature markets grew about 7%. In the six months, Life Sciences segment sales increased 8.3%, driven by growth in consumables and systems sales of 6.5% and 36.5%, respectively. Sales in emerging markets in the six months grew about 16% while sales in mature markets grew about 7%.

Increased pricing (primarily in the BioPharmaceuticals market) contributed \$2,419, or about 0.8%, to consumables sales growth in the second quarter thus, the volume increase related to consumables sales was about 4.6%. In the six months, increased pricing (primarily in the BioPharmaceuticals market) contributed \$5,031, or about 0.8%, to consumables sales growth thus, the volume increase related to consumables sales was about 5.7%.

Systems sales represented 8.1% of total Life Sciences sales in the second quarter compared to 6.9% in the second quarter of fiscal year 2011. In the six months, systems sales represented 7.4% of total Life Sciences sales compared to 6.0% in the six months of fiscal year 2011. Life Sciences sales represented approximately 51% of total Company sales in the second quarter and six months compared to 52%, in the same periods of fiscal year 2011.

Sales in the BioPharmaceuticals market, which is comprised of two submarket groupings (Pharmaceuticals and Laboratory), and represented approximately 55% of total Life Sciences sales, increased 12.3% in the quarter and 14.0% in the six months. The sales results by the submarkets are discussed below:

- Sales in the Pharmaceuticals submarket, which represented close to 50% of total Life Sciences sales, increased 13.1% in the quarter and 14.8% in the six months compared to the same periods of fiscal year 2011 driven by growth in all three regions. Consumables sales increased 10.0% in the quarter, while systems sales grew 47.0%. In the six months, consumables sales increased 12.9%, while systems sales grew 37.4%. Continued strength in the biotech sector as well as in plasma were key growth drivers in the quarter and six months. This also reflects increased demand for the Company's single-use products.
- Sales in the Laboratory submarket, which represented less than 10% of Life Sciences sales, grew 7.4% in the quarter and 9.1% in the six months, with all regions contributing. The growth in this submarket reflects end-user demand for products used in research and quality control driven by the underlying growth in the pharmaceutical marketplace. Emerging markets in Asia, particularly China and India, also contributed to the growth in the quarter and six months.

Sales in the Medical market, which is comprised of blood filtration product sales and other infection and patient protection products sold to hospitals, original equipment manufacturers ("OEM") and cell therapy developers, represented about 30% of total Life Sciences sales. Sales were flat in the second quarter and increased 1.2% in the six months compared to the same periods of fiscal year 2011.

- Sales of blood filtration products, which represented approximately 15% of total Life Sciences sales, increased 6.0% in the quarter reflecting increased sales in all three regions. In the Americas, the Company's largest blood filtration region, the sales growth was driven by the U.S. and reflects new product conversions at certain customers. The growth in Europe reflects sales to a new blood center in the U.K. partly offset by declines in other countries due to economic conditions. The growth in Asia, the Company's smallest blood filtration region, reflects increased sales in several countries. In the six months, sales of blood filtration products increased 4.8%. The growth in the six months reflects increased sales in the

Americas and Asia, partly offset by a decline in Europe. The growth in blood filtration sales in the Americas and Asia reflects the same trends evident in the quarter. The decline in sales in Europe reflects the impact of economic conditions in the region.

- OEM sales, which represented less than 10% of total Life Sciences sales, were down 7% in the quarter reflecting timing of customer orders and the impact of the Thailand floods. In the six months, OEM sales were down 1.7% reflecting the same trend evident in the quarter partly mitigated by the impact of increased intravenous filter (“IV”) sales in the Americas driven by regulatory requirements in the U.S.
- Sales to Hospitals, which represented less than 10% of total Life Sciences sales, were down 7.3% and 4.1% in the quarter and six months, respectively, primarily reflecting decreased sales in Europe, the Company's largest Hospital region. The decline in sales in Europe reflects the impact of weak economic conditions in the region resulting in reduced spending by hospitals.

Sales in the Food & Beverage market, which represented about 15% of total Life Sciences sales, increased 2.4% in the second quarter compared to the second quarter of fiscal year 2011. Consumables sales grew 2.6%. Consumables sales growth in the second quarter was hampered by the impact of the divestiture of a non-core asset group in Italy in the first quarter. Excluding the impact of this divestiture, consumables sales grew about 10% in the quarter with all regions contributing. This growth was driven by new market applications and products in food contact compliance and beer stabilization, augmented by growth in emerging markets. Systems sales were up slightly in the quarter, reflecting a tough comparative to last year's very strong quarter. In the six months, sales in the Food & Beverage market increased 3.1%. Consumables sales decreased 2.3%, while systems sales grew 35.2%. Excluding the impact of the divestiture discussed above, consumables sales grew about 5% in the six months. The growth in consumables and systems sales in the six months was driven by new markets applications and products augmented by growth in emerging markets.

Life Sciences gross margin in the second quarter of fiscal year 2012 increased 60 basis points to 55.9% from 55.3% in the second quarter of fiscal year 2011. Approximately 30 basis points of the improvement in gross margin in the quarter reflects improved pricing. The balance of the improvement reflects the impact of manufacturing cost savings (net of inflationary cost increases) partly offset by negative product mix. Life Sciences gross margin in the six months of fiscal year 2012 increased 100 basis points to 55.9% from 54.9% in the six months of fiscal year 2011. Approximately 50 basis points of the improvement in gross margin in the six months reflects improved pricing, with the balance principally driven by the benefit of exchange rates on foreign currency denominated sourced goods primarily in the Euro-zone.

SG&A expenses in the second quarter of fiscal year 2012, increased by \$8,454, or 9.6% (an increase of \$8,688, or 9.9% in local currency) compared to the second quarter of fiscal year 2011. In the six months, SG&A expenses increased by \$21,576, or 12.6% (an increase of \$18,375, or 10.7% in local currency) compared to the six months of fiscal year 2011. Selling expenses increased approximately 5% in the quarter and 11% in the six months. G&A expenses increased approximately 17% and 15% in the quarter and six months, respectively. In addition to inflation in payroll and related costs that impacted both selling and G&A expenses, the increase in SG&A (in local currency) in the quarter and six months principally reflects increased spending related to regional expansion in emerging markets (impacting selling and G&A expenses), including the acquisition in Brazil and project related costs in information technology as discussed in the Review of Consolidated Results above. SG&A as a percentage of sales increased to 27.1% from 26.4% in the second quarter of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the quarter were as follows:

- selling expenses were 16.1% compared to 16.4% in the second quarter of fiscal year 2011, and
- G&A expenses were 11.0% compared to 10.0% in the second quarter of fiscal year 2011.

In the six months, SG&A as a percentage of sales increased to 27.1% from 26.6% in the six months of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the six months were as follows:

- selling expenses were 16.2% compared to 16.1% in the six months of fiscal year 2011, and
- G&A expenses were 10.9% compared to 10.5% in the six months of fiscal year 2011.

R&D expenses in the second quarter of fiscal year 2012 were \$14,258, an increase of \$1,370, or 10.6% (an increase of \$1,404, or 10.9% in local currency). As a percentage of sales, R&D expenses were 4.0% compared to 3.9% in the second quarter of fiscal year 2011. In the six months, R&D expenses were \$27,563, an increase of \$1,418, or 5.4% (an increase of \$1,265, or 4.8% in local currency). As a percentage of sales, R&D expenses were 3.9% compared to 4.0% in the six months of fiscal year 2011.

Segment profit dollars were \$88,706, an increase of \$5,056, or 6.0% (\$4,427, or 5.3% in local currency) compared to the second quarter of fiscal year 2011. Incremental margin, which is defined as the ratio of segment profit growth to revenue growth, was 22% (19% in local currency) in the quarter. Segment profit margin declined to 24.8% from 25.0% in the second quarter of fiscal year 2011. In the six months, segment profit dollars were \$177,688, an increase of \$20,850, or 13.3% (\$14,526, or 9.3% in local currency) compared to the six months of fiscal year 2011. In the six months, incremental margin was 31% (27% in local currency). Segment profit margin increased to 24.9% from 24.3% in the six months of fiscal year 2011.

**Industrial:**

Presented below are summary Statements of Segment Profit for the Industrial segment for the three and six months ended January 31, 2012 and January 31, 2011:

| Three Months Ended | Jan 31, 2012 | % of Sales | Jan 31, 2011 | % of Sales | % Change |
|--------------------|--------------|------------|--------------|------------|----------|
| Sales              | \$ 340,816   |            | \$ 311,018   |            | 9.6      |
| Cost of sales      | 180,137      | 52.9       | 163,259      | 52.5       | 10.3     |
| Gross margin       | 160,679      | 47.1       | 147,759      | 47.5       | 8.7      |
| SG&A               | 100,874      | 29.6       | 91,932       | 29.6       | 9.7      |
| R&D                | 7,325        | 2.1        | 7,885        | 2.5        | (7.1)    |
| Segment profit     | \$ 52,480    | 15.4       | \$ 47,942    | 15.4       | 9.5      |

| Six Months Ended | Jan 31, 2012 | % of Sales | Jan 31, 2011 | % of Sales | % Change |
|------------------|--------------|------------|--------------|------------|----------|
| Sales            | \$ 690,324   |            | \$ 604,915   |            | 14.1     |
| Cost of sales    | 372,272      | 53.9       | 318,402      | 52.6       | 16.9     |
| Gross margin     | 318,052      | 46.1       | 286,513      | 47.4       | 11.0     |
| SG&A             | 202,473      | 29.3       | 178,435      | 29.5       | 13.5     |
| R&D              | 14,958       | 2.2        | 14,797       | 2.4        | 1.1      |
| Segment profit   | \$ 100,621   | 14.6       | \$ 93,281    | 15.4       | 7.9      |

The tables below present sales by market and region within the Industrial segment for the three and six months ended January 31, 2012 and January 31, 2011, including the effect of exchange rates for comparative purposes.

| Three Months Ended   | Jan 31, 2012 | Jan 31, 2011 | % Change | Exchange Rate Impact | % Change in Local Currency |
|----------------------|--------------|--------------|----------|----------------------|----------------------------|
| <b>By Market</b>     |              |              |          |                      |                            |
| Process Technologies | \$ 211,654   | \$ 186,822   | 13.3     | \$ (269)             | 13.4                       |
| Aerospace            | 54,959       | 47,403       | 15.9     | (118)                | 16.2                       |
| Microelectronics     | 74,203       | 76,793       | (3.4)    | 1,644                | (5.5)                      |
| Total Industrial     | \$ 340,816   | \$ 311,018   | 9.6      | \$ 1,257             | 9.2                        |

|                  |            |            |       |          |      |
|------------------|------------|------------|-------|----------|------|
| <b>By Region</b> |            |            |       |          |      |
| Americas         | \$ 104,726 | \$ 105,079 | (0.3) | \$ (553) | 0.2  |
| Europe           | 106,374    | 86,657     | 22.8  | (1,777)  | 24.8 |
| Asia             | 129,716    | 119,282    | 8.7   | 3,587    | 5.7  |
| Total Industrial | \$ 340,816 | \$ 311,018 | 9.6   | \$ 1,257 | 9.2  |



| Six Months Ended        | Jan 31, 2012      | Jan 31, 2011      | % Change    | Exchange Rate Impact | % Change in Local Currency |
|-------------------------|-------------------|-------------------|-------------|----------------------|----------------------------|
| <b>By Market</b>        |                   |                   |             |                      |                            |
| Process Technologies    | \$ 425,939        | \$ 355,007        | 20.0        | \$ 7,598             | 17.8                       |
| Aerospace               | 111,592           | 98,160            | 13.7        | 764                  | 12.9                       |
| Microelectronics        | 152,793           | 151,748           | 0.7         | 6,597                | (3.7)                      |
| <b>Total Industrial</b> | <b>\$ 690,324</b> | <b>\$ 604,915</b> | <b>14.1</b> | <b>\$ 14,959</b>     | <b>11.6</b>                |
| <b>By Region</b>        |                   |                   |             |                      |                            |
| Americas                | \$ 213,791        | \$ 205,547        | 4.0         | \$ (257)             | 4.1                        |
| Europe                  | 205,487           | 168,338           | 22.1        | 2,154                | 20.8                       |
| Asia                    | 271,046           | 231,030           | 17.3        | 13,062               | 11.7                       |
| <b>Total Industrial</b> | <b>\$ 690,324</b> | <b>\$ 604,915</b> | <b>14.1</b> | <b>\$ 14,959</b>     | <b>11.6</b>                |

Industrial segment sales increased 9.2% in the second quarter and 11.6 % in the six months, reflecting strong growth in the Process Technologies and Aerospace markets, partly offset by a decline in the Microelectronics market. The increase in sales in the quarter reflects growth in consumables (including appurtenant hardware) and systems sales of 10.0% and 4.8%, respectively. Sales in emerging markets increased about 30% in the second quarter, while sales in mature markets grew about 4%. The increase in sales in the six months reflects growth in consumables (including appurtenant hardware) and systems sales of 10.1% and 20.7%, respectively. In the six months, sales in emerging markets increased about 37%, while sales in mature markets grew about 5%.

Increased pricing contributed \$2,263, or 0.9%, to consumables sales growth in the second quarter thus, the volume increase related to consumables sales was about 9.1%. In the six months, increased pricing contributed \$2,777, or 0.5% to consumables sales growth thus the volume increase related to consumables sales was about 9.6%.

Systems sales represented 14.7% of total Industrial sales in the second quarter compared to 15.4% in the second quarter of fiscal year 2011. In the six months, systems sales represented 15.4% of total Industrial sales compared to 14.3% in the six months of fiscal year 2011. Industrial sales represented approximately 49% of total Company sales in the second quarter and six months compared to 48% in the same periods of fiscal year 2011.

Sales in the Process Technologies market, which is comprised of four submarkets; Fuels & Chemicals, Municipal Water, Power Generation and Machinery & Equipment, and represented about 60% of total Industrial sales, increased 13.4% in the quarter and 17.8% in the six months. The sales results by submarket are discussed below:

- Sales in the Fuels & Chemicals submarket, which represented approximately 25% of total Industrial sales increased 38.6% in the quarter and 37.3% in the six months, reflecting strong growth in all regions. Consumables sales increased 32.1% and 25.3% in the quarter and six months, respectively. Systems sales grew 64.6% in the quarter and almost 100% in the six months. Robust growth in the oil & gas, refining and alternative energy sectors in emerging markets were key growth drivers in the quarter and six months.
- Sales in the Machinery & Equipment submarket, which represented approximately 20% of total Industrial sales, increased 18.1% in the quarter and 15.1% in the six months, with all regions contributing to the growth. The increase in Machinery & Equipment sales was driven by growth in the mining, primary metals, automotive in-plant and mobile OEM sectors. Growth in emerging markets was also a key contributor to the growth in the quarter and six months.
- Sales in the Power Generation submarket, which represented less than 10% of total Industrial sales, decreased 16.5% in the quarter and 1.3% in the six months. By region, the sales results in the quarter and six months reflect a decline in the Americas and in Asia partly offset by growth in Europe. The decline in the Americas reflects a decrease in systems sales, partly offset by growth in consumables sales. The decline in Asia reflects a decrease in demand from wind turbine OEM's in China. The growth in Europe in the quarter reflects increased activity in the nuclear energy sector.
- Municipal Water submarket sales, which represented less than 10% of total Industrial sales, decreased 18.8% in the quarter and were flat in the six months. By region, sales in the Americas (the Company's largest Municipal Water region) were down 37.3% in the quarter and 18.8% in the six months. There is a large backlog in this market as U.S. municipalities continue to invest in membrane filtration to comply with drinking water regulations and the decline in the quarter and six months reflects the timing of these large projects. Sales in Europe decreased 15.3% in the quarter and 13.5% in the six

months reflecting a reduction in capital spending due to economic conditions in the region. In Asia, sales more than doubled in the quarter and more than tripled in the six months. The growth in the quarter and six months was largely driven by wastewater projects in Australia spurred by environmental discharge regulations.

The Aerospace market is comprised of sales of air, water, lubrication, fuel and hydraulic protection products to end-user customers in Military and Commercial Aerospace. Sales in the Aerospace market, which represented about 15% of total Industrial sales, increased 16.2% in the quarter and 12.9% in the six months. The sales results by submarket are discussed below:

- Sales to the Military Aerospace submarket, which represented less than 10% of total Industrial sales, increased 31.4% and 17.8% in the second quarter and six months, respectively. All regions contributed to the growth in the quarter and six months, however, CH-47 helicopter program sales in the Americas were particularly strong.
- Sales to the Commercial Aerospace submarket, which represented less than 10% of total Industrial sales, were flat in the second quarter. In the six months, sales to the Commercial Aerospace submarket increased 7.6%. The growth in Commercial Aerospace sales in the six months was primarily driven by the Americas. This growth in the Americas reflects increases in OEM production rates and aftermarket sales related to an increase in passenger miles flown.

Microelectronics sales, which represented about 20% of total Industrial sales, decreased 5.5% in the quarter and 3.7% in the six months. The decrease in both periods reflects a decline in semiconductor chip production and decreased OEM demand. The display, data storage and inkjet sectors were all weak. Sales in Asia, the Company's largest Microelectronics region, were down 5.5% in the quarter and 3.0% in the six months. The Americas, which generates the largest share of the Company's OEM sales, declined 7.2% and 10.9% in the quarter and six months, respectively. Sales in Europe, the Company's smallest Microelectronics region, were down 3.2% in the quarter. In the six months, sales in Europe grew 3.2% driven by increased capital sales in the semiconductor sector.

Industrial gross margin decreased 40 basis points to 47.1% from 47.5% in the second quarter of fiscal year 2011. The decline in gross margin reflects the following:

- unfavorable mix which reduced gross margin by approximately 170 basis points primarily due to the reduction in consumables product sales in the Microelectronics market, and
- unfavorable absorption of overhead also related to the decline in Microelectronics sales, as well as a reduction in inventory levels.

This was partly offset by favorable pricing as well as manufacturing cost savings, net of inflationary cost increases. In the six months, Industrial gross margin decreased 130 basis points to 46.1% from 47.4% in the six months of fiscal year 2011. The decrease in gross margin in the six months reflects the impact of the reduction in consumables product sales in the Microelectronics market as discussed above as well as the impact of the increase in systems sales, which typically have lower gross margins than consumables.

SG&A expenses increased by \$8,942, or 9.7% (an increase of \$8,694, or 9.5% in local currency) compared to the second quarter of fiscal year 2011. In the six months, SG&A expenses increased by \$24,038, or 13.5% (an increase of \$19,842, or 11.1% in local currency) compared to the six months of fiscal year 2011. Selling expenses increased about 4% in the quarter and 11% in the six months. G&A expenses were up about 19% and 18% in the quarter and six months, respectively. In addition to inflation in payroll and related costs, the increase in SG&A (in local currency) in the quarter and six months principally reflects increased spending related to regional expansion in emerging markets (impacting selling and G&A expenses), including the acquisition in Brazil, and project related costs in information technology as discussed in the Review of Consolidated Results, as well as costs related to bringing Industrial into the European and Asian hubs.

SG&A expenses as a percentage of sales were 29.6% in the quarter, on par with the second quarter of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the quarter were as follows:

- selling expenses were 17.6% compared to 18.5% in the second quarter of fiscal year 2011, and
- G&A expenses were 12.0% compared to 11.1% in the second quarter of fiscal year 2011.

In the six months, SG&A expenses as a percentage of sales decreased to 29.3% from 29.5% in the six months of fiscal year 2011. The selling and G&A expense components of SG&A as a percentage of sales in the six months were as follows:

- selling expenses were 17.6% compared to 18.2% in the six months of fiscal year 2011, and
- G&A expenses were 11.7% compared to 11.3% in the six months of fiscal year 2011.



R&D expenses were \$7,325 in the second quarter of fiscal year 2012 compared to \$7,885 in the second quarter of fiscal year 2011, a decrease of \$560, or 7.1% (\$590, or 7.5% in local currency). As a percentage of sales, R&D expenses were 2.1% compared to 2.5% in the second quarter of fiscal year 2011. In the six months, R&D expenses were \$14,958 compared to \$14,797 in the six months of fiscal year 2011, an increase of \$161, or 1.1% (\$65, or less than 1% in local currency). As a percentage of sales, R&D expenses in the six months were 2.2% compared to 2.4% in the six months of fiscal year 2011.

Segment profit dollars in the second quarter of fiscal year 2012 were \$52,480, an increase of \$4,538, or 9.5% (\$3,776, or 7.9% in local currency). Incremental margin was 15% (13% in local currency) in the quarter. Segment profit margin in the quarter was 15.4%, on par with the second quarter of fiscal year 2011. In the six months, segment profit dollars were \$100,621, an increase of \$7,340, or 7.9% (\$3,717, or 4.0% in local currency). In the six months, incremental margin was 9% (5% in local currency). Segment profit margin in the six months decreased to 14.6% from 15.4% last year.

#### **Corporate Services Group:**

Corporate Services Group expenses in the second quarter of fiscal year 2012 were \$17,678 compared to \$16,980 in the second quarter of fiscal year 2011, an increase of \$698 or 4.1% (\$633 or 3.7% in local currency). The increase in Corporate Services Group expenses primarily reflects an increase in payroll and related costs and the costs associated with the executive management transition partly offset by a decrease in foreign currency transaction losses. In the six months, Corporate Services Group expenses were \$33,379 compared to \$29,301 in the six months of fiscal year 2011, an increase of \$4,078 or 13.9% (\$3,962 or 13.5% in local currency). The increase in Corporate Services Group expenses primarily reflects an increase in payroll and related costs and the costs associated with the executive management transition.

#### **Liquidity and Capital Resources**

Non-cash working capital, which is defined as working capital excluding cash and cash equivalents, notes receivable, notes payable and the current portion of long-term debt, was approximately \$633,900 at January 31, 2012 as compared with \$676,500 at July 31, 2011. Excluding the effect of foreign exchange (discussed below), non-cash working capital decreased approximately \$14,400 compared to July 31, 2011.

The Company's balance sheet is affected by spot exchange rates used to translate local currency amounts into U.S. Dollars. In comparing spot exchange rates at January 31, 2012 to those at July 31, 2011, the Euro and the British Pound have weakened against the U.S. Dollar, while the JPY has strengthened against the U.S. Dollar. The effect of foreign currency translation decreased non-cash working capital by \$28,231, including net inventory, net accounts receivable and other current assets by \$16,531, \$25,274 and \$5,158, respectively, as compared to July 31, 2011. Additionally, foreign currency translation decreased accounts payable and other current liabilities by \$18,150 and current income taxes payable by \$582.

Net cash provided by operating activities in the six months of fiscal year 2012 was \$203,983 as compared to \$155,523 in the six months of fiscal year 2011, an increase of \$48,460, or about 31% reflecting the increase in net earnings accompanied by an improvement in working capital management.

The Company's full cash conversion cycle, defined as days in inventory outstanding ("DIO") plus days sales outstanding ("DSO") less days payable outstanding ("DPO"), decreased to 132 days in the quarter ended January 31, 2012 from 144 days in the quarter ended January 31, 2011. This improvement reflects a decrease in DIO partly offset by a slight decrease in DPO. DSO in the quarter ended January 31, 2012 was on par with the same period of last year. The Company's full cash conversion cycle decreased to 130 days in the quarter ended October 31, 2011 from 142 days in the quarter ended October 31, 2010. This improvement reflects a decrease in DSO and DIO partly offset by a decrease in DPO.

Free cash flow, which is defined as net cash provided by operating activities less capital expenditures, was \$109,698, or about 71% of net earnings in the six months of fiscal year 2012, as compared with \$95,578, or about 65% of net earnings in the six months of fiscal year 2011. The increase in free cash flow reflects the increase in net cash provided by operating activities as discussed above, largely offset by an increase in capital expenditures principally related to the purchase of a new facility in Europe. The Company utilizes free cash flow as one way to measure its current and future financial performance. Company management believes this measure is important because it is a key element of its planning. The following table reconciles net cash provided by operating activities to free cash flow.

|   | Jan 31, 2012 | Jan 31, 2011 |
|---|--------------|--------------|
| Net cash provided by operating activities | \$ 203,983   | \$ 155,523   |
| Less capital expenditures                 | 94,285       | 59,945       |
| Free cash flow                            | \$ 109,698   | \$ 95,578    |
| Net Earnings                              | \$ 154,184   | \$ 147,073   |
| Free cash flow conversion                 | 71.1%        | 65.0%        |

Overall, net debt (debt net of cash and cash equivalents) as a percentage of total capitalization (net debt plus equity) was 6.3% at January 31, 2012 as compared to 9.1% at July 31, 2011. Net debt decreased by approximately \$43,400 compared with July 31, 2011, reflecting a decline in gross debt of \$75,100 partly offset by a decrease in cash and cash equivalents of \$2,300. The impact of foreign exchange rates (primarily on cash and cash equivalents) increased net debt by about \$29,400.

The Company's 5-year senior revolving credit facility contains financial covenants which require the Company to maintain a minimum consolidated net interest coverage ratio of 3.5:1, based upon trailing four quarters results, and a maximum consolidated leverage ratio of 3.5:1, based upon trailing four quarters results. In addition, the facility includes other covenants that under certain circumstances can restrict the Company's ability to incur additional indebtedness, make investments and other restricted payments, enter into sale and leaseback transactions, create liens and sell assets. As of January 31, 2012, the Company was in compliance with all related financial and other restrictive covenants, including limitations on indebtedness.

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

The Company conducts transactions in currencies other than their functional currency. These transactions include non-functional currency intercompany and external sales as well as intercompany and external purchases. The Company uses foreign exchange forward contracts, matching the notional amounts and durations of the receivables and payables resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by changing foreign exchange rates. The risk management objective of holding foreign exchange derivatives is to mitigate volatility to earnings and cash flows due to changes in foreign exchange rates.

The notional amount of foreign currency forward contracts entered into during the three and six months ended January 31, 2012 was \$489,067 and \$1,371,611, respectively. The notional amount of foreign currency forward contracts outstanding as of January 31, 2012 was \$255,994. The Company's foreign currency balance sheet exposures resulted in the recognition of a loss within SG&A of approximately \$6,323 in the three months ended January 31, 2012, before the impact of the measures described above. Including the impact of the Company's foreign exchange derivative instruments, the net recognition within SG&A was a loss of approximately \$1,576 in the three months ended January 31, 2012.

As of January 31, 2012, the Company had \$140,000 of outstanding commercial paper, all of which is recorded as current liabilities under notes payable in the Company's consolidated balance sheet. Commercial paper outstanding at any one time during the quarter had balances ranging from \$135,000 to \$165,000, carried interest rates ranging between 0.38% and 0.53% and original maturities between 28 and 34 days. Commercial paper outstanding at January 31, 2012 carry interest rates ranging between 0.47% and 0.50% and maturities between 29 and 32 days. As of January 31, 2012, the Company does not have any outstanding borrowings under its existing senior revolving credit facility.

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

As of January 31, 2012, the amount of cash and cash equivalents held by foreign subsidiaries was \$504,458. The Company does not expect any restrictions or taxes on repatriation of cash held outside of the U.S. to have a material effect on the Company's overall liquidity.

Capital expenditures were \$94,285 in the six months (\$37,636 expended in the second quarter). Depreciation expense was \$22,259 and amortization expense was \$4,598 in the second quarter of fiscal year 2012. Depreciation expense was \$44,602 and amortization expense was \$8,790 in the six months of fiscal year 2012.

On October 16, 2008, the board authorized an expenditure of \$350,000 to repurchase shares. At July 31, 2011, there was \$203,037 remaining under this stock repurchase authorization. On September 26, 2011, the board authorized an expenditure of \$250,000 to repurchase shares. The Company did not repurchase stock in the six months of fiscal year 2012 leaving \$453,037

remaining at January 31, 2012 under the current stock repurchase programs. Net proceeds from stock plans were \$16,662 in the six months of fiscal year 2012.

In the six months of fiscal year 2012, the Company paid dividends of \$40,274 compared to \$36,976 in the six months of fiscal year 2011, an increase of about 9%. The Company increased its quarterly dividend by 20% from 17.5 cents to 21 cents per share, effective with the dividend declared on January 19, 2012.

### **Recently Issued Accounting Pronouncements**

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

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of this disclosure-only guidance will not have an impact on the Company’s consolidated financial results and is effective for the Company beginning with its first quarter of fiscal year 2013.

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There is no material change in the market risk information disclosed in Item 7A of the 2011 Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES.**

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

In connection with the aforementioned business improvement initiatives, during fiscal years 2010 and 2011, certain significant operations migrated and are expected to continue to migrate in future fiscal quarters to the Company’s global enterprise resource planning (“ERP”) software system. The purpose of the ERP system is to facilitate (i) the flow of information between all business functions inside the boundaries of the Company and (ii) the management of the connections to outside stakeholders. Built on a centralized database and utilizing a common computing platform, the ERP system consolidates business operations into a more uniform, enterprise wide system environment. The Company’s ERP implementation is accompanied by process changes and improvements, including those that impact internal control over financial reporting. No operations were migrated to the ERP system during the second quarter of fiscal year 2012.

There have been no changes in, including in connection with the above described initiative, the Company's internal control over financial reporting during the second quarter of fiscal year 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

**(In thousands)**

As previously disclosed in the 2011 Form 10-K, the Company is subject to various regulatory proceedings and litigation, including with respect to various environmental matters. Reference is also made to Note 5, Contingencies and Commitments, to the accompanying condensed consolidated financial statements.

With respect to the matters described in Note 14, Contingencies and Commitments, to the Company's consolidated financial statements included in the 2011 Form 10-K, under the heading Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings, the Company has reached an agreement with the lead plaintiff to settle the consolidated putative securities class-action lawsuit originally filed in August 2007 in the United States District Court for the Eastern District of New York. Under the terms of the proposed settlement, the lawsuit will be dismissed with prejudice, and the Company and all individual defendants do not admit any liability and will receive a full and complete release of all claims asserted against them in the litigation, in exchange for the payment of an aggregate of \$22,500. Of the monetary payment to be made on behalf of the Company and the individual defendants, substantially all will be funded from insurance proceeds. The agreement is subject to the execution of definitive settlement documents and court approval after the class has been notified of its terms. The Company has reflected appropriate costs, contingent liabilities and related insurance recoveries in the condensed consolidated financial statements as of January 31, 2012 and July 31, 2011.

#### **Environmental Matters:**

The Company's condensed consolidated balance sheet at January 31, 2012 includes liabilities for environmental matters of approximately \$13,487, which relate primarily to the environmental proceedings discussed in the 2011 Form 10-K. 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.

### **ITEM 1A. RISK FACTORS.**

There is no material change in the risk factors reported in Item 1A of the 2011 Form 10-K. This report contains certain forward-looking statements that reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. For a description of these risks see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements and Risk Factors."

### **ITEM 6. EXHIBITS.**

See the Exhibit Index for a list of exhibits filed herewith or incorporated by reference herein.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pall Corporation

March 9, 2012

/s/ LISA MCDERMOTT

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Lisa McDermott

Chief Financial Officer  
and Treasurer

/s/ FRANCIS MOSCHELLA

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Francis Moschella

Vice President – Corporate Controller  
Chief Accounting Officer



## EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description of Exhibit</u>   |
|-----------------------|---|
| 3(i)*                 | Restated Certificate of Incorporation of the Registrant as amended through September 1, 2010, filed as Exhibit 3.1(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2010. |
| 3(ii)*                | By-Laws of the Registrant as amended through March 16, 2011, filed as Exhibit 3(ii) to the Registrant's Form 8-K filed on March 22, 2011.   |
| 10.1†                 | Form of Notice of Nonqualified Stock Option Grant Agreement Under Pall Corporation 2012 Stock Compensation Plan.  |
| 10.2†                 | Form of Notice of Restricted Stock Units Award Agreement Under Pall Corporation 2012 Stock Compensation Plan.   |
| 10.3†                 | Form of Notice of Grant of Initial Award Units Agreement Under Pall Corporation 2012 Stock Compensation Plan.   |
| 10.4†                 | Form of Notice of Grant of Annual Award Units Agreement Under Pall Corporation 2012 Stock Compensation Plan.  |
| 31.1†                 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2†                 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1†                 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.   |
| 32.2†                 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.   |
| 101.INS               | XBRL Instance Document**  |
| 101.SCH               | XBRL Taxonomy Extension Schema Document**   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document**   |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document**   |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document**  |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document**  |

\* Incorporated herein by reference.

† Exhibit filed herewith.

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

**PALL CORPORATION 2012 STOCK COMPENSATION PLAN**  
**NONQUALIFIED STOCK OPTION GRANT AGREEMENT**

Granted to: \_\_\_\_\_ (“you” or “your”)

Date of Grant: \_\_\_\_\_

Number of Shares Subject to the Option: \_\_\_\_\_

Purchase Price Per Share: \$ \_\_\_\_\_

We are pleased to advise you that Pall Corporation (the “Company”) has, pursuant to the Pall Corporation 2012 Stock Compensation Plan (the “Plan”), granted you, as of the Date of Grant set forth above, an option (the “Option”) to purchase the number of shares of common stock of the Company (the “Common Stock”) set forth above at the Purchase Price Per Share set forth above, which price is the Fair Market Value per share of Common Stock on the Date of Grant. The Option is subject to the terms and conditions of the Plan and this Nonqualified Stock Option Grant Agreement (the “Grant Agreement”). As this Option is conveyed and managed online, your online acceptance of the Option constitutes your agreement to, and acceptance of, all terms and conditions of the Plan and this Grant Agreement.

A copy of the Plan and the Plan’s prospectus are being provided to you with this Grant Agreement. Words and terms used in this Grant Agreement with initial capital letters and not defined herein are used herein as defined in the Plan. You should carefully examine the Plan and the Plan prospectus before you make any decision to exercise this Option. The Plan is hereby incorporated by reference in this Grant Agreement and made a part of it. This Grant Agreement is subject to all of the terms and provisions of the Plan as in effect from time to time but subject to the limitation on amendments set forth in Section 15(c) of the Plan.

This Option is not intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”).

The following provisions of this Grant Agreement set forth the exercise schedule of the Option and other important terms and conditions of the Option. Please read the entire Grant Agreement thoroughly.

1. **Exercise Schedule.** No part of the Option may be exercised (i) before the first anniversary of the Date of Grant set forth above or (ii) after the seventh anniversary of the Date of Grant. Subject to the foregoing and to the provisions of Section 2 hereof, you may exercise this Option as follows:

- (a) at any time or times from the first anniversary of the Date of Grant to the
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day preceding the second anniversary, both such dates inclusive, you may exercise this Option with respect to up to 25% of the total number of shares of Common Stock covered hereby;

(b) at any time or times from the second anniversary of the Date of Grant to the day preceding the third anniversary, both such dates inclusive, you may exercise this Option as to any number of shares of Common Stock which, when added to the shares as to which you have theretofore exercised this Option, will not exceed 50% of the total number of shares of Common Stock covered hereby;

(c) at any time or times from the third anniversary of the Date of Grant to the day preceding the fourth anniversary, both of such dates inclusive, you may exercise this Option as to any number of shares of Common Stock which, when added to the shares as to which you have theretofore exercised this Option, will not exceed 75% of the total number of shares of Common Stock covered hereby; and

(d) at any time or times from the fourth anniversary of the Date of Grant to the seventh anniversary, both such dates inclusive, you may exercise this Option as to any number of shares of Common Stock which, when added to the shares as to which you have theretofore exercised this Option, will not exceed the total number of shares of Common Stock covered hereby.

2. **Conditions of Exercise** . This Option may not be exercised by you unless all of the following conditions are met:

(a) Counsel for the Company must be satisfied at the time of exercise that the issuance of shares of Common Stock upon exercise of this Option will be in compliance with the Securities Act of 1933, as amended, and other applicable federal and state laws.

(b) You must give the Company written notice of exercise specifying the number of shares of Common Stock with respect to which this Option is being exercised, and at the time of exercise pay the full purchase price for the shares being acquired (i) in cash (the word "cash" being deemed to include a check), (ii) by surrender of a number of shares of Common Stock that otherwise would have been delivered to you upon exercise of the Option having a total Fair Market Value equal to the full purchase price, (iii) a combination of (i) and (ii) or such other manner as the Committee may authorize.

(c) You must at all times during the period beginning with the Date of Grant of this Option and ending on the date of such exercise have been an employee of the Company or of one of its subsidiaries (or of a corporation or a parent or subsidiary of a corporation assuming this Option by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation in a transaction to which Section 424(a) of the Code applies), provided, however, that:

(i) in the event of your death, the provisions of Section 3(c) hereof shall govern;

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(ii) if you cease to be an employee by reason of your “Disability” or “Retirement” (each as defined below) while holding this Option which has not expired and has not been fully exercised, this Option will remain in full force and effect and may be exercised in accordance with the exercise schedule set forth in Section 1 hereof and its other terms until it expires by its terms by the passage of time or is canceled or terminated in accordance with its terms;

(iii) if you cease to be an employee by reason of your discharge by the Company or any subsidiary other than for Cause (as defined in the Plan) or Disability while holding this Option which has not expired and has not been fully exercised, this Option will remain in full force and effect and may be exercised in accordance with its terms, to the extent exercisable on the date of termination, until ninety (90) days following such termination of employment (but in no event later than the earlier of the seventh anniversary of the Date of Grant or such time as the Option is canceled or terminated in accordance with its terms), and

(iv) in the event of your “Involuntary Termination of Employment” (as defined by the Plan) within twenty-four (24) months following a “Change in Control” (as defined by the Plan), the provisions of Section 5 hereof shall govern.

As used herein, “Retirement” means termination of employment with the Company and all of its subsidiaries at or after age 65 and “Disability” means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, as determined by the Committee in its sole discretion.

(d) You (or your estate or any person exercising this Option pursuant to Section 3 hereof) must make payment to the Company by cash or check of such amount as is sufficient to satisfy the Company’s obligation, if any, to withhold federal, state and local taxes by reason of such exercise or make such other arrangement satisfactory to the Committee as will enable the Company to satisfy any such obligation.

(e) The shares of Common Stock covered by this Option have been listed (subject only to official notice of issuance) on any national securities exchange on which the Common Stock is then listed.

### 3. **Restrictions on Transfer.**

(a) This Option is not transferable by you otherwise than by will or the laws of descent and distribution and is exercisable during your lifetime only by you or, if a legal guardian or other representative has been appointed for you, by such guardian or representative, provided, however, that this Option in its entirety (or any portion hereof remaining after any partial exercise hereof) is transferable by gift or domestic relations order

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to any of your “family members” (as hereinafter defined), subject to the following conditions:

(i) not less than twenty (20) days before any such transfer, you have notified the Company in a manner authorized by the Company of your intention to make such transfer and have furnished such information regarding the proposed transferee and the terms of the proposed transfer as the Company may request;

(ii) the proposed transfer complies with such conditions and limitations as the Committee, in its sole discretion, may have established, and

(iii) at the time of such transfer, the issuance and sale to the transferee of the shares issuable upon exercise of this Option can be registered under the Securities Act of 1933 by a registration statement on Form S-8 (or any successor form adopted by the Securities and Exchange Commission under the said Act, the use of which does not, in the judgment of the Committee, impose any significant additional expense on the Company).

(b) The term “family member” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing your household (other than a tenant or employee), a trust in which your family members have more than 50% of the beneficial interest, a foundation in which you or your family members control the management of assets, and any other entity in which you or your family members own more than 50% of the voting interests.

(c) If at the time of your death this Option has not been fully exercised, your estate or any person who acquires the right to exercise this Option by bequest or inheritance or by reason of your death may, at any time within one year after the date of your death (but in no event after the seventh anniversary of the Date of Grant), exercise this Option with respect to up to the entire remaining number of shares of Common Stock subject to this Option, whether or not such shares otherwise would have been exercisable at the time of your death. It shall be a condition to the exercise of this Option after your death that the Company shall have been furnished evidence satisfactory to it of the right of the person exercising this Option to do so and that all estate, transfer, inheritance or death taxes payable with respect to this Option or the shares of Common Stock to which it relates have been paid or otherwise provided for to the satisfaction of the Company.

4. **Adjustments to Shares.** As provided in Section 14 of the Plan, if there is any change in shares of Common Stock by reason of any stock dividend, stock split, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, or any rights offering to purchase shares of Common Stock at a price substantially below fair market value, or any similar change affecting the Common Stock, the number and kind of shares that may be issued and delivered to you upon your exercise of this Option, and the Purchase Price Per Share of this

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Option, will be appropriately adjusted consistent with such change in such manner as the Committee, in its sole discretion, may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, you under this Option, provided, however, that any such adjustments will be made in accordance with Section 409A of the Code, to the extent applicable.

5. **Change in Control.** In the event you incur an “Involuntary Termination of Employment” (as defined in the Plan) within twenty-four (24) months following a “Change in Control” of the Company (as defined in the Plan), this Option, to the extent not fully exercised by the date on which the termination of employment occurs (x) will become exercisable in full on the date of the termination of employment (i.e., to the extent that this Option or portion thereof is not yet exercisable, the right to exercise this Option in full shall be accelerated) and (y) will, subject to the terms of the Plan, remain fully exercisable until the date on which this Option would otherwise expire by its terms by the passage of time.

6. **Acknowledgement of Understanding.** By your exercise of this Option, you acknowledge that, prior to such exercise, you have been provided a prospectus describing the Plan, the shares of Common Stock issuable upon the exercise of this Option and the federal income tax consequences associated with the exercise of the Option. You also agree that you have read and understand the Plan and this Grant Agreement.

7. **No Right to Continued Employment.** By accepting this Grant Agreement, you acknowledge and agree that neither the grant of this Option nor any of the terms herein (including the exercise schedule) constitute an express or implied promise of continued employment or service for the exercise period or for any other period, and shall not interfere with your right or the right of the Company or its subsidiaries to terminate the employment or service relationship at any time, with or without cause, subject to the terms of any written employment agreement that you may have entered into with the Company or any of its subsidiaries.

8. **Entire Agreement.** The Plan and this Grant Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and you with respect to the subject matter hereof. In the event of any conflict between this Grant Agreement and the Plan, the Plan shall be controlling.

9. **Decisions of Committee.** By accepting this Grant Agreement, you hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee or the Chief Executive Officer of the Company, as applicable, upon any questions relating to this Grant Agreement and the Plan.

10. **Electronic Delivery of Documents.** By accepting this Grant Agreement, you further agree that the Company may deliver by email or other electronic means all documents relating to the Plan or this Grant Agreement (including, without limitation, Plan prospectuses) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under

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contract with the Company.

11. **Governing Law** . This Grant Agreement shall be construed under the laws of the State of New York, without regard to conflict of laws principles.

**PALL CORPORATION 2012 STOCK COMPENSATION PLAN**  
**RESTRICTED STOCK UNITS AWARD AGREEMENT**

Awarded to: \_\_\_\_\_ (“you” or “your”)

Date of Award: \_\_\_\_\_

Number of Units Awarded: \_\_\_\_\_

We are pleased to advise you that Pall Corporation (the “Company”) has, pursuant to the Pall Corporation 2012 Stock Compensation Plan (the “Plan”), awarded you, as of the Date of Award set forth above, the number of Restricted Stock Units shown above. This award is subject to the terms and conditions of the Plan and this Restricted Stock Unit Award Agreement (the “Award Agreement”). As this award of Restricted Stock Units is conveyed and managed online, your online acceptance of this award constitutes your agreement to and acceptance of all terms and conditions of the Plan and this Award Agreement. No payment of cash is required for the Units.

A copy of the Plan and the Plan’s prospectus are being provided to you with this Award Agreement. Words and terms used in this Award Agreement with initial capital letters and not defined herein are used herein as defined in the Plan. The Plan is hereby incorporated by reference in this Award Agreement and made a part of it. This Award Agreement is subject to all of the terms and provisions of the Plan as in effect from time to time but subject to the limitation on amendments set forth in Section 15(c) of the Plan.

The following provisions of this Award Agreement set forth important terms and conditions of the award. Please read the entire Award Agreement thoroughly.

1. **Your Account.** The Restricted Stock Units awarded to you have been credited to a separate bookkeeping account that the Company has established for you under the Plan (your “Account”). Each Restricted Stock Unit so credited, and each Dividend Equivalent Unit, if any, credited to your Account pursuant to Section 2 below (such Restricted Stock Units and Dividend Equivalent Units collectively are referred to herein as your “Units”), will entitle you to receive, upon the vesting of your Units as provided in Section 3 below, one share of Pall Corporation Common Stock for each whole Unit in your Account together with cash for any fractional Unit. You will receive the shares (and cash in lieu of any fractional share) at the time, and subject to the conditions, specified in Section 4 below.

2. **Dividend Equivalent Units.** Until payment is made with respect to your Units pursuant to Section 4(a) or (b) below, additional Units (“Dividend Equivalent Units”) will be credited to your Account on each date on which the Company pays a dividend on its Common Stock (“Dividend Payment Date”). The number of Dividend Equivalent Units

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that will be so credited will be determined by first multiplying (A) the total number of Units (including any previously credited Dividend Equivalent Units) standing to your credit in your Account immediately prior to the Dividend Payment Date, by (B) the per-share amount of the dividend paid on that date, and then , dividing the resulting amount by the closing price per share of the Company's Common Stock on that date.

3. **Vesting of Units.** Your Units will become vested in accordance with the following provisions:

(a) All of your Units will become vested on the earliest to occur of the following dates:

(i) the fourth annual anniversary of the Date of Award (the "Scheduled Vesting Date"), provided that you are still employed by the Company or any of its Affiliated Companies on such Scheduled Vesting Date;

(ii) the date of your death or "Disability" (as defined in the Plan); or

(iii) if you incur an "Involuntary Termination of Employment" (as defined in the Plan) within twenty-four (24) months following a "Change in Control" (as defined in the Plan), the date on which such termination occurs.

(b) If your employment with the Company and all of its Affiliated Companies terminates before the Scheduled Vesting Date as a result of your "Retirement" (defined as your termination of employment with the Company and its Affiliated Companies after you have attained age 65), a portion of your Units will be treated as having become vested on the date on which your employment terminates (your "Termination Date"), and the remaining portion of your Units will be forfeited on that date and you will have no further rights with respect thereto. For purposes of the foregoing, the portion of your Units that will become vested on your Termination Date will be equal to the excess of (i) the total number of Units awarded, including any Dividend Equivalent Units, multiplied by the "Applicable Pro Rata Percentage" (defined below), over (ii) the number of Units, if any, which previously became vested. The "Applicable Pro Rata Percentage" is determined by dividing the number of full or partial calendar months in the period beginning on the Date of Award and ending on your Termination Date by the total number of full or partial calendar months in the period beginning on the Date of Award and ending on the Scheduled Vesting Date.

(c) If your Termination of Employment occurs before your Scheduled Vesting Date for any reason other than your death, Disability or Retirement or due to an Involuntary Termination of Employment within twenty-four (24) months following a Change in Control, all of your Units will be forfeited on your Termination Date and you will have no further rights with respect thereto.

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4. **Payment for Vested Units.** Payment with respect to your Units that become vested under Section 3 above (your “Vested Units”) will be made in accordance with the following provisions:

(a) **Time of Payment.** Except to the extent that you elect otherwise under (b) below, payment with respect to your Vested Units will be made to you, (or in the event of your death to the person or persons you have designated as your beneficiary for purposes of the Plan or to your estate if you have not furnished a beneficiary designation form to the Company) within twenty (20) days after the date on which your Vested Units become vested (the “Vesting Date” for your Units); provided, however, that in no event will payment be made any earlier than the earliest date on which payment may be made with respect to your Vested Units under Section 409A(a)(2) of the Internal Revenue Code of 1986, as amended (the “Code”) without incurring a tax under Section 409A of the Code.

(b) **Deferral of Payment.** If your Units become vested on your Scheduled Vesting Date, you may elect to defer payment with respect to part or all of your Vested Units in accordance with the following provisions, but subject to the provisions of (c) below:

(i) Your deferral election must be made in writing, on a form furnished to you for such purpose by the Company or in such other manner as the Company may authorize. The form or election must be received by the Company at least one year prior to your Scheduled Vesting Date.

(ii) In your deferral election form, you must specify the number of Units as to which you want to defer payment, and the date on which payment with respect to such Units is to be made (the “Payment Date”).

(iii) You may select, as the Payment Date for such Units, the first business day of any of the following: (A) any calendar month after the fifth anniversary of the Scheduled Vesting Date; (B) the calendar year following the date on which your employment with the Company and all of its Affiliated Companies terminates for any reason; or (C) the earlier of (x) any calendar month you select that is a month permitted to be selected under clause (A) of this sentence, or (y) the calendar year referred to in clause (B).

(iv) Any election you make hereunder will be irrevocable.

(v) Except as provided in subparagraph (vi) or (vii) below, payment with respect to the Vested Units specified in your deferral election form will be made on the Payment Date selected by you in such form with respect to such Units.

(vi) If the Payment Date you select pursuant to clause (B) or (C) of subparagraph (iii) above occurs by reason of your Termination of

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Employment for any reason other than death or Disability, then (A) payment with respect to your Vested Units will not be made to you until the first business day of the first calendar month after the fifth anniversary of the Scheduled Vesting Date even if your Termination of Employment occurs before that date; and (B) if at the time of your Termination of Employment you are an officer and a “key employee” as defined in Section 416(i) of the Code, payment with respect to your Units will not be made to you any earlier than the first business day after the expiration of six months from your Termination Date.

(vii) Payment with respect to any part or all of your Vested Units may be made to you on any date earlier than the Payment Date specified by you in your deferral election form if (A) you request such early payment and (B) the Company, in its sole discretion, determines that such early payment is necessary to help you meet an “unforeseeable emergency” within the meaning of Section 409A (a)(2)(B)(ii) of the Code.

(c) Limitations on Deferral . Your right to make a deferral election under (b) above shall be subject to the following limitations:

(i) The Company may deny your right to make such election if it determines, in its sole discretion, that your deferral might not be treated as part of a plan of deferred compensation “for a select group of management or highly compensated employees” for purposes of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

(ii) Your deferral election will not be effective hereunder if, at any time during the 12-month period ending on your Scheduled Vesting Date, you receive a hardship withdrawal under Section 7.2 of the Pall Corporation 401(k) Plan.

(iii) No amount may be deferred with respect to your Vested Units pursuant to your deferral election hereunder to the extent that any tax is required to be withheld with respect to such amount pursuant to applicable federal, state or local law.

(d) Form of Payment . Payment to be made with respect to your Vested Units pursuant to (a) or (b) above shall be made by the deposit into a brokerage account in your name of a number of whole and fractional shares of the Company’s Common Stock that is equal to the number of whole and fractional Vested Units standing to your credit in your Account at the time of such deposit.

5. **Additional Terms and Conditions.** The Restricted Units awarded to you and all Dividend Equivalent Units credited to you hereunder are subject to the following additional terms and conditions:

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(a) No Shareholder Rights Prior to Delivery. Until payment is made with respect to such Units in accordance with Section 4 (a) or (b) above, you will have none of the rights of a shareholder with respect to the shares of Common Stock represented by those Units, but you will have the right to be credited with Dividend Equivalent Units thereon as provided in Section 2 above.

(b) No Right to Assign Units . Your right to receive payment with respect to such Units shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance or attachment or garnishment by a creditor at any time prior to your actual receipt of payment.

(c) Regulatory Compliance. Notwithstanding anything contained herein to the contrary, the Company's obligation hereunder to issue or deliver certificates or to otherwise reflect the indicia of ownership of shares of Common Stock shall be subject to the terms of all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

(d) No Interest in Company Assets. The Plan constitutes only a promise on the Company's part to make payment to you in the future with respect to such Units in accordance with the terms of the Plan and the provisions of this Award Agreement, and you will have no more than the status of a general unsecured creditor of the Company with respect to your right to receive such payment.

(e) Plan Terms. The Units are subject to all of the other terms and provisions of the Plan as in effect from time to time.

(f) Withholding Taxes . You agree to pay the Company, or make provision satisfactory to the Company for payment of, the minimum statutory amount required to satisfy all federal, state and local income tax withholding requirements and your share of applicable employment withholding taxes in connection with the issuance or deliverance of shares of Common Stock following vesting of the Units and/or vesting of the Units, in any manner permitted by the Plan.

(g) Understanding of Plan Terms. By accepting this award, you acknowledge that you have been provided a prospectus describing the Plan, the shares of Common Stock issuable upon vesting of the Units and the federal income tax consequences associated therewith. You also agree that you have read and understand the Plan and this Award Agreement.

(h) Section 409A Compliance . This Award Agreement shall be interpreted and operated in a manner consistent with Section 409A of the Code, so as to avoid adverse tax consequences in connection with this award of Units. The Company reserves the right, exercisable in its sole discretion and without your consent, to amend the Plan and the terms of this Award Agreement in order to accomplish such result.

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(i) No Right to Continued Employment. By accepting this award, you acknowledge and agree that neither this award of Units nor any of the terms herein (including the vesting schedule) constitute an express or implied promise of continued employment or service for the exercise period or for any other period, and shall not interfere with your right or the right of the Company or its subsidiaries to terminate the employment or service relationship at any time, with or without cause, subject to the terms of any written employment agreement that you may have entered into with the Company or any of its subsidiaries.

(j) Decisions of Committee. By accepting this award, you hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Committee or the Chief Executive Officer of the Company, as applicable, upon any questions relating to this Award Agreement and the Plan.

(k) Electronic Delivery of Documents . By accepting this award, you further agree that the Company may deliver by email or other electronic means all documents relating to the Plan or this Award Agreement (including, without limitation, Plan prospectuses) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under contract with the Company.

(l) Entire Agreement. The Plan and this Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and you with respect to the subject matter hereof. In the event of any conflict between this Award Agreement and the Plan, the Plan shall be controlling.

(m) Governing Law. This Award Agreement shall be construed under the laws of the State of New York, without regard to conflict of laws principles.

**NOTICE OF GRANT OF  
INITIAL AWARD UNITS  
UNDER PALL CORPORATION  
2012 STOCK COMPENSATION PLAN**

[Date]

To:

From: Pall Corporation (the "Company")

Re: Grant of Initial Award Units

We are pleased to advise you that on \_\_\_\_\_, 201\_, you were granted [ ] initial Annual Award Units pursuant to Section 8(a)(ii) of the Pall Corporation 2012 Stock Compensation Plan (the "Plan"). These Units were granted to you on the following terms and conditions:

1. The Units granted to you have been credited to a bookkeeping account which the Company has established for you under the Plan (your "Plan Account"). Each Unit so credited represents the right to receive one share of Pall Corporation Common Stock at the time, and subject to the conditions, specified in Section 3 below.

2. Until payment is made with respect to the Units in your Plan Account, additional Units ("Dividend Equivalent Units") will be credited to your Plan Account on each date on which the Company pays a dividend on its Common Stock ("Dividend Payment Date"). The number of Dividend Equivalent Units that will be so credited will be determined by first multiplying (A) the total number of Annual Award Units and Dividend Equivalent Units standing to your credit in the account immediately prior to the Dividend Payment Date, by (B) the per-share amount of the dividend paid on that date, and then, dividing the resulting amount by the closing price per share of the Company's Common Stock on that date.

3. The Units in your Plan Account will become payable upon your ceasing to be a member of the Board of Directors of the Company for any reason other than removal for cause. Payment will be made to you, (or in the event of your death, to the person or persons you have designated as your beneficiary for purposes of the Plan or to your estate if you have not furnished a beneficiary designation form to the Company) as follows: by the deposit of an equivalent number of whole and fractional shares into a brokerage account created in your name by the third party administrator charged with performing the recordkeeping services for the Plan. However, if you have filed an Installment Distribution Election Form to have payment with respect to these Units

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made in installments, payment will be made in accordance with your election.

4. All Annual Award Units granted to you and all Dividend Equivalent Units credited to you under the Plan are subject to the following additional terms and conditions:

(a) Until payment is made with respect to such Units in accordance with Section 3 above, you will have none of the rights of a shareholder with respect to the shares of Common Stock represented by those Units, other than the right to be credited with "Dividend Equivalents" thereon as provided in Section 2 above.

(b) Your right to receive payment with respect to such Units is not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by your creditors.

(c) The Plan constitutes only a promise on the Company's part to make payment to you in the future with respect to such Units in accordance with the terms of the Plan (summarized in Section 3 above), and you will have no more than the status of a general unsecured creditor of the Company with respect to your right to receive such payment.

(d) Such Units are subject to all of the other terms and provisions of the Plan as in effect from time to time except that no amendment, suspension or termination of the Plan may adversely affect your rights, without your written consent, with respect to any Awards previously granted to you.

The foregoing is a summary of the terms of the Annual Awards Units granted to you but is qualified by reference to the Plan itself, a copy of which will be furnished to you upon request to Linda Villa (phone: 516-801-9504; fax: 516-801-9643; e-mail: linda\_villa@pall.com).

Accompanying this Notice of Grant is a form by which you may designate a beneficiary to receive the stock issued in payment of the Units in your account in the event of your death. If you do not sign and return the beneficiary designation form, payment will be made to your estate.

**NOTICE OF GRANT OF  
ANNUAL AWARD UNITS  
UNDER PALL CORPORATION  
2012 STOCK COMPENSATION PLAN**

January \_\_\_\_, 201\_\_

To:

From: Pall Corporation (the "Company")

Re: Grant of Annual Award Units

We are pleased to advise you that on January \_\_\_\_, 201\_\_, you were granted [ ] Annual Award Units pursuant to Section 8(a)(i) of the Pall Corporation 2012 Stock Compensation Plan (the "Plan"). These Units were granted to you on the following terms and conditions:

1. The Units granted to you have been credited to a bookkeeping account which the Company has established for you under the Plan (your "Plan Account"). Each Unit so credited represents the right to receive one share of Pall Corporation Common Stock at the time, and subject to the conditions, specified in Section 3 below.

2. Until payment is made with respect to the Units in your Plan Account, additional Units ("Dividend Equivalent Units") will be credited to your Plan Account on each date on which the Company pays a dividend on its Common Stock ("Dividend Payment Date"). The number of Dividend Equivalent Units that will be so credited will be determined by first multiplying (A) the total number of Annual Award Units and Dividend Equivalent Units standing to your credit in the account immediately prior to the Dividend Payment Date, by (B) the per-share amount of the dividend paid on that date, and then, dividing the resulting amount by the closing price per share of the Company's Common Stock on that date.

3. The Units in your Plan Account will become payable upon your ceasing to be a member of the Board of Directors of the Company for any reason other than removal for cause. Payment will be made to you, (or in the event of your death, to the person or persons you have designated as your beneficiary for purposes of the Plan or to your estate if you have not furnished a beneficiary designation form to the Company) as follows: by the deposit of an equivalent number of whole and fractional shares into a brokerage account created in your name by the third party administrator charged with performing the recordkeeping services for the Plan.

4. All Annual Award Units granted to you and all Dividend Equivalent Units credited

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to you under the Plan are subject to the following additional terms and conditions:

(a) Until payment is made with respect to such Units in accordance with Section 3 above, you will have none of the rights of a shareholder with respect to the shares of Common Stock represented by those Units, other than the right to be credited with "Dividend Equivalents" thereon as provided in Section 2 above.

(b) Your right to receive payment with respect to such Units is not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by your creditors.

(c) The Plan constitutes only a promise on the Company's part to make payment to you in the future with respect to such Units in accordance with the terms of the Plan (summarized in Section 3 above), and you will have no more than the status of a general unsecured creditor of the Company with respect to your right to receive such payment.

(d) Such Units are subject to all of the other terms and provisions of the Plan as in effect from time to time except that no amendment, suspension or termination of the Plan may adversely affect your rights, without your written consent, with respect to any Awards previously granted to you.

The foregoing is a summary of the terms of the Annual Awards Units granted to you but is qualified by reference to the Plan itself, a copy of which will be furnished to you upon request to Linda Villa (phone: 516-801-9504; fax: 516-801-9643; e-mail: linda\_villa@pall.com).

Accompanying this Notice of Grant is a form by which you may designate a beneficiary to receive the stock issued in payment of the Units in your account in the event of your death. If you do not sign and return the beneficiary designation form, payment will be made to your estate.

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Lawrence D. Kingsley, certify that:

1. I have reviewed this report on Form 10-Q of Pall Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2012

/s/ LAWRENCE D. KINGSLEY

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Lawrence D. Kingsley  
President and Chief Executive Officer

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Lisa McDermott, certify that:

1. I have reviewed this report on Form 10-Q of Pall Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2012

/s/ LISA MCDERMOTT

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Lisa McDermott  
Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pall Corporation (the "Company") on Form 10-Q for the quarterly period ending January 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence D. Kingsley, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to my knowledge:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 9, 2012

/s/ LAWRENCE D. KINGSLEY

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Lawrence D. Kingsley

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pall Corporation (the "Company") on Form 10-Q for the quarterly period ending January 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lisa McDermott, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to my knowledge:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 9, 2012

/s/ LISA MCDERMOTT

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Lisa McDermott

Chief Financial Officer and Treasurer