PALL CORP
Form 10-Q
December 10, 2009

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

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2009

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001- 04311

PALL CORPORATION

(Exact name of registrant as specified in its charter)

New York	**11-1541330**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
25 Harbor Park Drive, Port Washington, NY	**11050**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant 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 o No o

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

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

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

The number of shares of the registrant's common stock outstanding as of December 3, 2009 was 117,361,998.

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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)

	Oct. 31, 2009	July 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 433,534	$ 414,011
Accounts receivable	546,225	561,063
Inventories	419,180	413,278
Prepaid expenses	40,012	32,204
Other current assets	157,545	149,894
Total current assets	1,596,496	1,570,450
Property, plant and equipment	698,896	681,658
Goodwill	284,875	282,777
Intangible assets	62,228	63,751
Other non-current assets	238,862	242,176
Total assets	$ 2,881,357	$ 2,840,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 45,130	$ 42,371
Accounts payable and other current liabilities	403,038	422,794
Income taxes payable	117,333	137,846
Current portion of long-term debt	102,306	97,432
Dividends payable	—	16,947
Total current liabilities	667,807	717,390
Long-term debt, net of current portion	577,765	577,666

Income taxes payable non-current	136,163	133,919
Deferred taxes and other non-current liabilities	304,369	297,239
Total liabilities	1,686,104	1,726,214
Stockholders equity:		
Common stock, par value $.10 per share	12,796	12,796
Capital in excess of par value	202,176	197,759
Retained earnings	1,283,180	1,237,735
Treasury stock, at cost	(339,467)	(354,274)
Stock option loans	(338)	(435)
Accumulated other comprehensive income/(loss):		
Foreign currency translation	141,677	127,015
Pension liability adjustment	(108,977)	(108,977)
Unrealized investment gains	4,630	3,423
Unrealized losses on derivatives	(424)	(444)
	36,906	21,017
Total stockholders equity	1,195,253	1,114,598
Total liabilities and stockholders equity	$ 2,881,357	$ 2,840,812

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	
	Oct. 31, 2009	**Oct. 31, 2008**
Net sales	$ 546,939	$ 578,022
Cost of sales	276,741	298,631
Gross profit	270,198	279,391
Selling, general and administrative expenses	176,658	180,506
Research and development	17,249	18,933
Restructuring and other charges, net	4,057	8,175
Interest (income)/expense, net	(2,606)	9,426
Earnings before income taxes	74,840	62,351
Provision for income taxes	7,857	19,264
Net earnings	$ 66,983	$ 43,087
Earnings per share:		
Basic	$ 0.57	$ 0.36
Diluted	$ 0.56	$ 0.36
Dividends declared per share	$ 0.145	$ 0.13
Average shares outstanding:		
Basic	117,686	119,363
Diluted	118,847	120,520

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	Oct. 31, 2009	**Oct. 31, 2008**
Operating activities:		
Net cash provided by operating activities	$ 73,040	$ 50,854
Investing activities:		
Capital expenditures	(37,081)	(26,287)
Proceeds from sale of retirement benefit assets	5,273	4,748
Purchases of retirement benefit assets	(5,526)	(5,669)
Disposals of fixed assets	107	2,053
Acquisitions of businesses, net of disposals and cash acquired		(36,832)
Other	(1,076)	(1,055)
Net cash used by investing activities	(38,303)	(63,042)
Financing activities:		
Notes payable	2,622	17,711
Dividends paid	(33,913)	(15,501)
Net proceeds from stock plans	8,162	6,984
Purchase of treasury stock		(49,894)
Long-term borrowings		33,578
Repayments of long-term debt	(532)	(134,334)
Excess tax benefits from stock-based compensation arrangements	291	449
Net cash used by financing activities	(23,370)	(141,007)
Cash flow for period	11,367	(153,195)
Cash and cash equivalents at beginning of year	414,011	454,065
Effect of exchange rate changes on cash and cash equivalents	8,156	(34,567)
Cash and cash equivalents at end of period	$ 433,534	$ 266,303
Supplemental disclosures:		
Interest paid	$ 10,243	$ 18,378
Income taxes paid (net of refunds)	23,393	19,692

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 Companys 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 Companys Annual Report on Form 10-K for the fiscal year ended July 31, 2009 (2009 Form 10-K).

The Company has evaluated subsequent events for possible disclosure through December 10, 2009, the date the financial statements are issued, noting no events that would require adjustment to, or disclosures in, the unaudited condensed consolidated financial statements as of and for the period ended October 31, 2009.

NOTE 2 - ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that established the FASB Accounting Standards Codification (ASC) as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). In addition, this guidance also recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative GAAP for SEC registrants. This new guidance is effective with the Companys first quarter of fiscal 2010. The ASC does not change current GAAP other than the manner in which new accounting guidance is referenced, and the adoption of this authoritative guidance did not have an impact on the Companys condensed consolidated financial statements.

In April 2009, the FASB issued authoritative guidance that requires publicly traded companies to provide disclosures about fair value of financial instruments in interim financial information. This new guidance is effective with the Companys first quarter of fiscal year 2010. See Note 13, Investment Securities, for the required disclosures.

In April 2009, the FASB issued authoritative guidance to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably determined. If the fair value of such assets or liabilities cannot be reasonably determined, then they would generally be recognized in accordance with certain other pre-existing authoritative guidance. This new guidance also amends the subsequent accounting for assets and liabilities arising from contingencies in a business combination and certain other disclosure requirements. This new guidance is effective with the Companys first quarter of fiscal year 2010. The adoption of this authoritative guidance did not have any impact on the Companys condensed consolidated financial statements.

In April 2008, the FASB issued authoritative guidance that amends the factors that should be considered in developing renewal or extension assumptions that are used to determine the useful life of a recognized intangible asset and requires enhanced related disclosures. This new guidance is effective with the Companys first quarter of fiscal year 2010. The adoption of this authoritative guidance did not have any impact on the Companys condensed consolidated financial statements.

In February 2008, the FASB issued authoritative guidance that permitted the delayed application of fair value measurement accounting for non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The Companys non-financial assets and liabilities subject to this guidance principally consist of intangible assets acquired through business combinations and long-lived assets. This new guidance is effective with the Companys first quarter of fiscal year 2010. The adoption of this authoritative guidance did not have any impact on the Companys condensed consolidated financial statements.

In December 2007, the FASB issued authoritative guidance related to the accounting for business combinations. This guidance establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This new guidance is effective with the Company's first quarter of fiscal year 2010. The impact of adopting this authoritative guidance will generally only impact the accounting for future business combinations and will impact certain aspects of business combination accounting, such as transaction costs and certain merger-related restructuring reserves. One exception to the prospective application of this guidance relates to accounting for income taxes associated with business combinations that closed prior to the beginning of the Company's first quarter of fiscal year 2010. Once the purchase accounting measurement period closes for these acquisitions, any further adjustments to income taxes recorded as part of these business combinations will impact income tax expense. Previously, further adjustments were predominantly recorded as adjustments to goodwill. The Company did not have any acquisitions during the first quarter of fiscal year 2010. The total amount of such unrecognized income tax benefits as of August 1, 2009 that would impact the effective tax rate was $15,288.

In December 2007, the FASB issued authoritative guidance related to the accounting for noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. In addition, this guidance also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This new guidance is effective with the Company's first quarter of fiscal 2010. The adoption of this authoritative guidance did not have any impact on the Company's condensed consolidated financial statements.

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

	Oct. 31, 2009	July 31, 2009
Accounts receivable:		
Billed	$ 461,724	$ 464,023
Unbilled	96,096	107,642
Total	557,820	571,665
Less: Allowances for doubtful accounts	(11,595)	(10,602)
	$ 546,225	$ 561,063

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

	Oct. 31, 2009	July 31, 2009
Inventories:		
Raw materials and components	$ 116,246	$ 115,274
Work-in-process	60,204	55,409
Finished goods	242,730	242,595
	$ 419,180	$ 413,278

	Oct. 31, 2009	July 31, 2009
Property, plant and equipment:		
Property, plant and equipment	$ 1,551,213	$ 1,512,624
Less: Accumulated depreciation and amortization	(852,317)	(830,966)
	$ 698,896	$ 681,658

(In thousands, except per share data)
(Unaudited)

NOTE 4 - GOODWILL AND INTANGIBLE ASSETS

The following table presents goodwill, allocated by reportable segment.

	Oct. 31, 2009	July 31, 2009
Life Sciences	$ 92,808	$ 91,361
Industrial	192,067	191,416
	$ 284,875	$ 282,777

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

Intangible assets, net, consist of the following:

	Oct. 31, 2009		
	Gross	Accumulated Amortization	Net
Patents and unpatented technology	$ 97,361	$ 51,694	$ 45,667
Customer-related	13,950	1,676	12,274
Trademarks	6,448	3,876	2,572
Other	3,827	2,112	1,715
	$ 121,586	$ 59,358	$ 62,228

	July 31, 2009		
	Gross	Accumulated Amortization	Net
Patents and unpatented technology	$ 96,421	$ 49,680	$ 46,741
Customer-related	13,910	1,297	12,613
Trademarks	6,379	3,712	2,667
Other	3,780	2,050	1,730
	$ 120,490	$ 56,739	$ 63,751

Amortization expense for intangible assets for the three months ended October 31, 2009 and October 31, 2008 was $2,621 and $2,262, respectively. Amortization expense is estimated to be approximately $7,513 for the remainder of fiscal year 2010, $10,168 in fiscal year 2011, $9,901 in fiscal year 2012, $6,919 in fiscal year 2013, $5,832 in fiscal year 2014 and $4,543 in fiscal year 2015.

NOTE 5 - TREASURY STOCK

On November 15, 2006, the board of directors authorized an expenditure of $250,000 to repurchase shares of the Company's common stock. On October 16, 2008, the board authorized an additional expenditure of $350,000 to repurchase shares. The Company's shares may be purchased over time, as market and business conditions warrant. There is no time restriction on these authorizations. During the three months ended October 31, 2009, the Company did not purchase shares in open-market transactions. At October 31, 2009, $452,943 remained available to be expended under the current stock repurchase programs. Repurchased shares are held in treasury for use in connection with the Company's stock-based compensation plans and for general corporate purposes.

During the three months ended October 31, 2009, 464 shares were issued under the Company's stock-based compensation plans. At October 31, 2009, the Company held 10,619 treasury shares.

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

NOTE 6 - CONTINGENCIES AND COMMITMENTS

With respect to the matters described in Note 15, Contingencies and Commitments, to the consolidated financial statements included in the 2009 Form 10-K, under the heading Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings, no liabilities or related receivables for insurance recoveries have been reflected in the condensed consolidated financial statements as of October 31, 2009 as these amounts are not currently estimable.

Federal Securities Class Actions:

As previously disclosed in Part 1 Item 3 Legal Proceedings in the 2009 Form 10-K, the U.S. District Court for the Eastern District of New York consolidated four putative class action lawsuits filed against the Company and certain members of its management team alleging violations of Sections 10(b) and 20(a) of the Exchange Act and Exchange Act Rule 10b-5 relating to the Companys understatement of certain U.S. federal income tax payments and its provision for income taxes in certain prior periods (as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K). On September 21, 2009, the Court denied the Companys motion to dismiss the consolidated amended complaint. On October 9, 2009, the Company moved for certification for interlocutory appeal, and the Court denied the motion by Memorandum and Order entered November 25, 2009.

Environmental Matters:

With respect to the environmental matters at the Companys Glen Cove, New York site, previously disclosed in Part I Item 3 Legal Proceedings in the Companys 2009 Form 10-K, the Company and the New York State Department of Environmental Conservation executed on September 23, 2009 a Consent Decree settling liability for the shallow and intermediate groundwater zones, termed OU-1. On October 23, 2009, the Consent Decree was entered by the clerk of the federal District Court for the Eastern District of New York and became effective. Pursuant to the Consent Decree, the Company agreed to pay $2 million (which was previously accured) in exchange for a broad release of OU-1 claims and liability. The settlement payment of $2 million, which was due by November 23, 2009, was paid by the Company on November 19, 2009. Claims and losses arising out of or in connection with the deep groundwater zone, termed OU-2, and any damages to the States natural resource are not covered by the Consent Decree and are thus excluded from the settlement. As previously disclosed in Part I Item 3 Legal Proceedings in the Companys 2009 Form 10-K, the New York State Department of Environmental Conservations OU-2 investigation continues to be ongoing.

The Companys condensed consolidated balance sheet at October 31, 2009 includes liabilities for environmental matters of approximately $11,953, which relate primarily to the previously reported environmental proceedings involving a Company subsidiary, Gelman Sciences Inc., pertaining to groundwater contamination. In the opinion of management, the Company is in substantial compliance with applicable environmental laws and its current accruals for environmental remediation are adequate. However, as regulatory standards under environmental laws are becoming increasingly stringent, there can be no assurance that future developments, additional information and experience gained will not cause the Company to incur material environmental liabilities or costs beyond those accrued in its condensed consolidated financial statements. The Company is currently in negotiations with the Michigan Department of Environmental Quality regarding its Comprehensive Proposal to Modify Cleanup Program (the Proposal) that was submitted to the State of Michigan on May 4, 2009. It is reasonably possible that the results of these negotiations may result in a material increase to the Companys environmental reserves beyond those accrued in its condensed consolidated balance sheet at October 31, 2009, however, the impact is not currently estimable.

The Company and its subsidiaries are subject to certain other legal actions that arise in the normal course of business. Other than those legal proceedings and claims discussed above and in the 2009 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. 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.

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

NOTE 7 - RESTRUCTURING AND OTHER CHARGES, NET

The following tables summarize the restructuring and other charges (“ROTC”) recorded for the three months ended October 31, 2009 and October 31, 2008:

	Three Months Ended Oct. 31, 2009		
	Restructuring (1)	**Other Charges (2)**	**Total**
Severance	$ 1,428	$ —	$ 1,428
Other	1,980	—	1,980
Costs related to inquiry (2a)	—	170	170
Environmental matters (2b)	—	541	541
	$ 3,408	$ 711	$ 4,119
Reversal of excess restructuring reserves	(62)	—	(62)
	$ 3,346	$ 711	$ 4,057
Cash	$ 2,290	$ 711	$ 3,001
Non-cash	1,056	—	1,056
	$ 3,346	$ 711	$ 4,057

	Three Months Ended Oct. 31, 2008		
	Restructuring (1)	**Other Charges (2)**	**Total**
Severance	$ 1,647	$ —	$ 1,647
Other	950	—	950
Costs related to inquiry (2a)	—	586	586
Environmental matters (2b)	—	1,279	1,279
Impairment of investments (2c)	—	1,977	1,977
In-process research and development (2d)	—	1,743	1,743
	$ 2,597	$ 5,585	$ 8,182
Reversal of excess restructuring reserves	(7)	—	(7)
	$ 2,590	$ 5,585	$ 8,175
Cash	$ 2,590	$ 1,865	$ 4,455
Non-cash	—	3,720	3,720
	$ 2,590	$ 5,585	$ 8,175

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

(Unaudited)

(1) Restructuring:

Company management examined the overall structure of the Company and the manner in which it conducts business activities with the objective of increasing revenue growth, improving efficiency and achieving cost reduction. This resulted in various restructuring activities, including the Company's facilities rationalization initiative and European cost reduction initiative ("EuroPall"), which commenced in fiscal year 2006, and the Western Hemisphere cost reduction initiative ("AmeriPall"), which commenced in fiscal year 2007. In fiscal year 2009, the Company commenced the second phase of its European cost reduction initiative ("EuroPall II") and implemented plans to reduce its workforce globally in response to current economic conditions.

Three Months Ended October 31, 2009 and October 31, 2008:

- The Company continued its cost reduction initiatives as discussed above. As a result, the Company recorded severance liabilities for the termination of certain employees worldwide as well as other costs related to these initiatives.

The following table summarizes the activity related to restructuring liabilities that were recorded in the three months ended October 31, 2009 and in the fiscal year ended July 31, 2009.

	Severance	Lease Termination Liabilities & Other	Total
2010			
Original charge	$ 1,428	$ 1,980	$ 3,408
Utilized	(1,283)	(1,694)	(2,977)
Other changes (a)	3	—	3
Balance at Oct. 31, 2009	$ 148	$ 286	$ 434
2009			
Original charge	$ 18,938	$ 4,734	$ 23,672
Utilized	(12,757)	(4,133)	(16,890)
Other changes (a)	412	20	432
Balance at Jul. 31, 2009	6,593	621	7,214
Utilized	(2,147)	(264)	(2,411)
Reversal of excess reserves (b)	(16)	—	(16)
Other changes (a)	172	12	184
Balance at Oct. 31, 2009	$ 4,602	$ 369	$ 4,971

(a) Other changes primarily reflect translation impact.

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

Excluded from the tables above are restructuring liabilities relating to fiscal years 2006 through 2008. As of October 31, 2009, the balance of these restructuring liabilities was $646.

(2) Other Charges:

(a) Costs related to inquiry:

In the three months ended October 31, 2009 and October 31, 2008, the Company recorded legal and other professional fees related to matters that were under audit committee inquiry. See 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").

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

(b) Environmental matters:

In the three months ended October 31, 2009, the Company increased its previously established environmental reserve related to matters in Pinellas Park, Florida. In the three months ended October 31, 2008, the Company increased its previously established environmental reserves, primarily related to environmental matters in Pinellas Park, Florida and Ann Arbor, Michigan.

(c) Investments:

In the three months ended October 31, 2008, the Company recorded a charge of $1,977 primarily for the other-than-temporary diminution in value of certain equity investments held by its benefits protection trust.

(d) In-process research and development:

In the three months ended October 31, 2008, the Company recorded a charge of $1,743 to write off in-process research and development acquired in the acquisition of GeneSystems, SA.

NOTE 8 INCOME TAXES

The Companys effective tax rate for the three months ended October 31, 2009 and October 31, 2008 was 10.5% and 30.9%, respectively. During the period, the Company recorded an income tax benefit of $13,197 due to the resolution of a foreign tax audit covering fiscal years 2001 through 2004. For the three months ended October 31, 2009, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations and the resolution of the foreign tax audit. For the three months ended October 31, 2008, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations and the retroactive extension of the federal research credit per the Emergency Economic Stabilization Act of 2008, which was enacted in the quarter ended October 31, 2008.

At October 31, 2009 and July 31, 2009, the Company had gross unrecognized income tax benefits of $229,914 and $240,683, respectively. During the three month period ended October 31, 2009, the amount of unrecognized income tax benefits decreased by $10,769, primarily due to the resolution of the foreign tax audit in the period, partially offset by tax positions taken during the current period. As of October 31, 2009, the amount of net unrecognized income tax benefits that if recognized, would impact the effective tax rate was $157,137.

The Company recognizes accrued interest expense related to unrecognized income tax benefits in interest expense and the balance at the end of a reporting period is recorded in interest payable on the Companys condensed consolidated balance sheet. Penalties are accrued as part of the provision for income taxes and the unpaid balance at the end of a reporting period is recorded as part of current or non-current income taxes payable. At October 31, 2009 and July 31, 2009, the Company had accrued $68,091 and $75,157, respectively, for potential payment of interest and penalties. The decrease of $7,066 was primarily due to the resolution of the foreign tax audit mentioned above. As previously disclosed in Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K, the actual amounts due and payable upon final settlement of the matters that are under review by taxing authorities in the U.S. and other taxing jurisdictions may differ materially from the Companys estimate. In particular, the Company may be subject to potential additional penalties that may be asserted by the U.S. and foreign taxing authorities of up to $127,000. In determining the probability of those potential additional penalties being assessed, the Company concluded that it was not more likely than not that those potential additional penalties will be assessed. As a result, the Company did not recognize the potential additional penalties of up to $127,000 in the condensed consolidated financial statements as of October 31, 2009.

Due to the potential resolution of tax examinations and the expiration of various statutes of limitations, the Company believes that it is reasonably possible that the gross amount of unrecognized income tax benefits may decrease within the next twelve months by a range of zero to $89,889.

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

NOTE 9 - COMPONENTS OF NET PERIODIC PENSION COST

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

	Three Months Ended					
	U.S. Plans		Foreign Plans		Total	
	Oct. 31, 2009	Oct. 31, 2008	Oct. 31, 2009	Oct. 31, 2008	Oct. 31, 2009	Oct. 31, 2008
Service cost	$ 1,983	$ 2,033	$ 1,231	$ 1,238	$ 3,214	$ 3,27
Interest cost	3,048	3,107	4,587	4,563	7,635	7,67
Expected return on plan assets	(2,023)	(2,114)	(3,443)	(3,847)	(5,466)	(5,96
Amortization of prior service cost	446	385	62	52	508	43
Recognized actuarial loss	608	264	717	348	1,325	61
Net periodic benefit cost	$ 4,062	$ 3,675	$ 3,154	$ 2,354	$ 7,216	$ 6,02

NOTE 10 - STOCK-BASED PAYMENT

The Company currently has four stock-based employee and director compensation plans (Stock Option Plans, Management Stock Purchase Plan ("MSPP"), Employee Stock Purchase Plan ("ESPP") and Restricted Stock Unit Plans), which are more fully described in Note 16, Common Stock, to the consolidated financial statements included in the 2009 Form 10-K.

The detailed components of stock-based compensation expense recorded in the condensed consolidated statements of earnings for the three months ended October 31, 2009 and October 31, 2008 are reflected in the table below.

	Three Months Ended	
	Oct. 31, 2009	Oct. 31, 2008
Stock options	$ 819	$ 1,015
Restricted stock units	2,554	2,301
ESPP	1,419	1,024
MSPP	936	857
Total	$ 5,728	$ 5,197

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

	Three Months Ended	
	Oct. 31, 2009	Oct. 31, 2008
Excess tax benefits in cash flows from financing activities	$ 291	$ 449

(In thousands, except per share data)

Tax benefit recognized related to total stock-based compensation expense	1,703	1,410
Actual tax benefit realized for tax deductions from option exercises of stock-based payment arrangements	1,960	1,308

Stock Options and ESPP

A summary of option activity for all stock option plans during the three months ended October 31, 2009 is presented below:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at August 1, 2009 (a)	3,724	$ 28.04		
Granted				
Exercised	(40)	23.30		
Forfeited or Expired	(1)	30.08		
Outstanding at October 31, 2009	3,683	$ 28.09	3.9	$ 20,285
Expected to vest at October 31, 2009	1,385	$ 32.46	5.6	$ 3,225
Exercisable at October 31, 2009	2,264	$ 25.32	2.9	$ 16,995

(a) This amount differs from the 2009 Form 10-K relating to option grants to the chairman and chief executive officer in fiscal years 2007 - 2009 that inadvertently exceeded a limitation applicable to option awards under the Pall Corporation 2005 Stock Compensation Plan, and the excess options were determined to be void as of the grant date. The effects of the void options on stock-based compensation expense were immaterial to the results of operations for all periods impacted.

As of October 31, 2009, there was $8,049 of total unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of 2.6 years. The total intrinsic value of options exercised during the three months ended October 31, 2009 and October 31, 2008 was $398 and $1,075, respectively.

The ESPP enables participants to purchase shares of the Company's common stock through payroll deductions at a price equal to 85% of the lower of the market price at the beginning or end of each semi-annual stock purchase period. The semi-annual offering periods end in April and October. A total of 319 shares and 244 shares were issued under the ESPP during the semi-annual stock purchase periods ended October 31, 2009 and October 31, 2008, respectively.

There were no stock options granted during the three months ended October 31, 2009 and October 31, 2008 and there were no grants related to the ESPP during the three months ended October 31, 2009 or October 31, 2008.

The fair value of the options and ESPP shares granted is estimated using a Black-Scholes-Merton option-pricing formula and amortized to expense over the options' service periods. The Company has placed exclusive reliance on historical volatility in its estimate of expected volatility. The Company used a sequential period of historical data equal to the expected term (or expected life) of the options and ESPP shares granted using a simple average calculation based upon the daily closing prices of the aforementioned period.

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

MSPP

The purpose of the MSPP is to encourage key employees of the Company to increase their ownership of shares of the Companys common stock by providing such employees with an opportunity to elect to have portions of their total annual compensation paid in the form of restricted units, to make cash purchases of restricted units and to earn additional matching restricted units which vest over a three year period for matches prior to August 1, 2003 and vest over a four year period for matches made thereafter. Such restricted units aggregated 1,015 and 1,009 as of October 31, 2009 and October 31, 2008, respectively. As of October 31, 2009, there was $8,807 of total unrecognized compensation cost related to nonvested restricted stock units granted under the MSPP, which is expected to be recognized over a weighted-average period of 2.9 years.

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(Unaudited)

The following is a summary of MSPP activity during the three months ended October 31, 2009 and October 31, 2008:

	Three Months Ended	
	Oct. 31, 2009	Oct. 31, 2008
Deferred compensation and cash contributions	$ 2,199	$ 4,241
Fair value of restricted stock units vested	$ 2,197	$ 669
Vested units distributed	149	72

RSUs

A summary of restricted stock unit activity, related to employees, for the Pall Corporation 2005 Stock Compensation Plan (2005 Stock Plan) during the three months ended October 31, 2009, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at August 1, 2009	1,216	$ 33.10
Granted		
Vested	(5)	31.50
Forfeited		
Nonvested at October 31, 2009	1,211	$ 33.10

As of October 31, 2009, there was $23,433 of total unrecognized compensation cost related to nonvested restricted stock units granted under the 2005 Stock Plan, which is expected to be recognized over a weighted-average period of 2.9 years.

There were no annual award units granted to non-employee directors of the Company during the three months ended October 31, 2009.

As of October 31, 2009, approximately 6,052 shares of common stock of the Company were reserved for stock-based compensation plans. Of the 6,052 shares, approximately 2,922 shares were reserved for vested awards and approximately 3,130 shares were reserved for unvested awards. The Company currently uses treasury shares that have been repurchased through the Companys stock repurchase program to satisfy share award exercises.

NOTE 11 - EARNINGS PER SHARE

The condensed consolidated statements of earnings present basic and diluted earnings per share. Basic earnings per share is determined by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share considers the potential effect of dilution on basic earnings per share assuming potentially dilutive shares that meet certain criteria, such as those issuable upon exercise of stock options, were outstanding. The treasury stock method reduces the dilutive effect of potentially dilutive securities as it assumes that cash proceeds (from the issuance of potentially dilutive securities) are used to buy back shares at the average share price during the period. Employee stock options and units aggregating 1,508 and 1,517 shares were not included in the computation of diluted shares for the three months ended October 31, 2009 and October 31, 2008, respectively, because their effect would have been antidilutive. The following is reconciliation between basic shares outstanding and diluted shares outstanding:

	Three Months Ended	
	Oct. 31, 2009	**Oct. 31, 2008**
Basic shares outstanding	117,686	119,363
Effect of stock plans	1,161	1,157
Diluted shares outstanding	118,847	120,520

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NOTE 12 - FAIR VALUE MEASUREMENTS

The Company records under the current authoritative guidance regarding fair value measurements, certain of its financial assets and liabilities at fair value, which is defined as 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). The 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.

(In thousands, except per share data)

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of October 31, 2009:

		Fair Value Measurements		
	As of Oct. 31, 2009	Level 1	Level 2	Level 3
Financial assets carried at fair value				
Available-for-sale debt securities	$ 51,326	$ 51,326	$	$
Available-for-sale equity securities	8,213	8,213		
Derivative financial instruments	1,058		1,058	
Financial liabilities carried at fair value				
Derivative financial instruments	866		866	

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, 2009:

		Fair Value Measurements		
	As of Jul. 31, 2009	Level 1	Level 2	Level 3
Financial assets carried at fair value				
Available-for-sale debt securities	$ 51,676	$ 51,676	$	$
Available-for-sale equity securities	7,114	7,114		
Derivative financial instruments	1,307		1,307	
Financial liabilities carried at fair value				
Derivative financial instruments	1,059		1,059	

The Company's available-for-sale debt and equity securities are valued using quoted market prices and, as such, are classified within Level 1 of the fair value hierarchy.

The derivative financial instruments classified within Level 2 of the fair value hierarchy are comprised of an interest rate swap and foreign currency forward contracts. The fair value of the Company's outstanding interest rate swap contract was determined based upon a non-binding valuation from the counterparty that is corroborated by observable market data such as Japanese Yen ("JPY") interest rates and yield curves. The fair values of the Company's foreign currency forward contracts were valued using pricing models, with all significant inputs derived from or corroborated by observable market data such as yield curves, currency spot and forward rates and currency volatilities.

During the three months ended October 31, 2009, the Company did not have significant measurements of non-financial assets or liabilities at fair value on a non-recurring basis.

NOTE 13 – INVESTMENT SECURITIES

Included within other non-current assets is a benefits protection trust, with assets aggregating $57,833 and $57,337 as of October 31, 2009 and July 31, 2009, respectively. The trust was established for the purpose of satisfying certain supplemental post-employment benefit obligations in the U.S. for eligible executives in the event of a change of control of the Company. In addition to holding cash equivalents primarily to satisfy short-term cash requirements relating to benefit payments, the trust primarily invests in U.S. government obligations, debt obligations of corporations and financial institutions with high credit ratings and equity mutual fund shares. Contractual maturity dates of debt securities held by the trust range from 2009 to 2039. Such debt and equity securities are classified as available-for-sale and were carried in the Company’s condensed consolidated balance sheets at aggregate fair values of $56,051 and $56,170 as of October 31, 2009 and July 31, 2009, respectively.

(In thousands, except per share data)

Also included within non-current assets is the Company’s investment in Satair A/S (“Satair”) of $3,455 and $2,588, at October 31, 2009 and July 31, 2009, respectively, which is classified as available-for-sale.

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

	Cost/ Amortized Cost Basis	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Net Unrealized Holding Gains
October 31, 2009					
Equity securities	$ 5,595	$ 8,213	$ 2,621	$ (3)	$ 2,618
Debt securities:					
U.S. Treasury	15,672	16,601	963	(34)	929
Other U.S. government	11,557	12,493	936	—	936
CMO/mortgage-backed	278	304	26	—	26
Corporate	20,436	21,928	1,492	—	1,492
	$ 53,538	$ 59,539	$ 6,038	$ (37)	$ 6,001
July 31, 2009					
Equity securities	$ 5,550	$ 7,114	$ 1,566	$ (2)	$ 1,564
Debt securities:					
U.S. Treasury	14,417	15,210	841	(48)	793
Other U.S. government	11,609	12,467	868	(10)	858
CMO/mortgage-backed	298	319	21	—	21
Corporate	22,367	23,680	1,314	(1)	1,313
	$ 54,241	$ 58,790	$ 4,610	$ (61)	$ 4,549

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
October 31, 2009						
Equity securities	$ 31	$ 3	$ —	$ —	$ 31	$ 3
Debt securities:						
U.S. Treasury	1,616	34	—	—	1,616	34

Other U.S. government	—	—	—	—	—	—
CMO/mortgage - backed	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
	$ 1,647	$ 37	$ —	$ —	$ 1,647	$ 37

	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
July 31, 2009						
Equity securities	$ 32	$ 2	$ —	$ —	$ 32	$ 2
Debt securities:						
U.S. Treasury	1,085	48	—	—	1,085	48
Other U.S. government	1,152	10	—	—	1,152	10
CMO/mortgage - backed	—	—			—	—
Corporate	297	1	—	—	297	1
	$ 2,566	$ 61	$ —	$ —	$ 2,566	$ 61

The following table shows the proceeds and gross gains and losses from the sale of available-for-sale investments for the three months ended October 31, 2009 and October 31, 2008:

	Oct. 31, 2009	Oct. 31, 2008
Proceeds from sales	$ 2,898	$ 2,090
Realized gross gains on sales	95	51
Realized gross losses on sales	—	46

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

As of October 31, 2009, the Company had an interest rate swap and foreign currency forward contracts outstanding with notional amounts aggregating $99,981 and $150,279 respectively, whose aggregate fair values were a liability of $658 and an asset of $850, respectively. Accumulated other comprehensive income includes $424, net of tax, of cumulative unrealized losses on its variable to fixed rate interest rate swap (i.e., cash flow hedge).

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

Foreign Exchange

a. Derivatives Not Designated as Hedging Instruments

(In thousands, except per share data)

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 liabilities resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by changing foreign exchange rates. The notional amount of foreign currency forward contracts entered into during the three months ended October 31, 2009 was $334,886. The notional amount of foreign currency forward contracts outstanding as of October 31, 2009 was $150,279.

b. Net Investment Hedges

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

Interest Rates

a. Cash Flow Hedges

The risk management objective of holding a floating-to-fixed interest rate swap is to lock in fixed interest cash outflows on a floating rate debt obligation. The associated risk is created by changes in market interest rates in Japan. The Company has an outstanding JPY loan with variable interest rates based on JPY-LIBOR-BBA. The Company meets the stated risk management objective through a “receive variable, pay fixed” interest rate swap entered into on June 20, 2007 related to the JPY 9 billion loan that matures in June 2010, whereby the Company receives payments at a variable rate based upon JPY LIBOR and makes payments at a fixed rate of 1.58% on a notional amount of JPY 9 billion.

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

	Asset Derivatives		**Liability Derivatives**	
October 31, 2009	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swap contract	Other current assets	$ —	Other current liabilities	$ 658
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Other current assets	$ 1,058	Other current liabilities	$ 208
Total derivatives		$ 1,058		$ 866
Nonderivative instruments designated as hedging instruments				
Net investment hedge			Current portion of long-term debt	$ 99,981

July 31, 2009	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments				
Interest rate swap contract	Other current assets	$	Other current liabilities	$ 688
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts	Other current assets	$ 1,307	Other current liabilities	$ 371
Total derivatives		$ 1,307		$ 1,059
Nonderivative instruments designated as hedging instruments				
Net investment hedge			Current portion of long-term debt	$ 95,121

The amounts of the gains and losses related to the Company's derivative financial instruments designated as hedging instruments for the quarter ended October 31, 2009 are presented as follows:

Derivatives in cash flow 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) [(a)]**
Interest rate swap contract	$ 20	Interest expense	$ (224)

(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 October 31, 2009.

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 October 31, 2009 are presented as follows:

Derivatives not designated as hedging relationships	**Location of Gain or (Loss) Recognized in Earnings on Derivatives**	**Amount of Gain or (L Recognize Earnings o Derivative**
Foreign exchange forward contracts	Selling, general and administrative expenses	$ (2

The amounts of the gains and losses related to the Company's nonderivative financial instruments designated as hedging instruments for the three months ended October 31, 2009 are presented as follows:

	Location of Gain or	**Amount of Gain or (Loss)**

(In thousands, except per share data)

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)	(Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Reclassified from Accumulated OCI into Earnings (Effective Portion) (a)
Nonderivatives designated as hedging relationships			
Net investment hedge	$ (3,110)	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 October 31, 2009.

NOTE 15 - COMPREHENSIVE INCOME

	Three Months Ended Oct. 31, 2009	Three Months Ended Oct. 31, 2008
Net earnings	$ 66,983	$ 43,087
Unrealized translation adjustment	13,827	(102,815)
Income taxes	835	(7,695)
Unrealized translation adjustment, net	14,662	(110,510)
Change in unrealized investment gains/(losses)	1,452	(2,304)
Income taxes	(245)	122
Change in unrealized investment gains/(losses), net	1,207	(2,182)
Unrealized gains/(losses) on derivatives	31	(429)
Income taxes	(11)	150
Unrealized gains/(losses) on derivatives, net	20	(279)
Total comprehensive income/(loss)	$ 82,872	$ (69,884)

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

	Three Months Ended Oct. 31, 2009	Three Months Ended Oct. 31, 2008
Unrealized gains/(losses) arising during the period	$ 1,452	$ (4,144)
Income taxes	(245)	122
Net unrealized gains/(losses) arising during the period	1,207	(4,022)

Reclassification adjustment for net losses included in net earnings				1,840
Change in unrealized investment gains/(losses), net	$	1,207	$	(2,182)

NOTE 16 - SEGMENT INFORMATION

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

The following table presents sales and operating profit by segment reconciled to earnings before income taxes, for the three months ended October 31, 2009 and October 31, 2008.

	Three Months Ended			
	Oct. 31, 2009		Oct. 31, 2008	
SALES:				
Life Sciences	$	238,910	$	220,329
Industrial		308,029		357,693
Total	$	546,939	$	578,022
OPERATING PROFIT:				
Life Sciences	$	57,767	$	41,868
Industrial		30,971		55,106
Total operating profit		88,738		96,974
General corporate expenses		12,447		17,022
Earnings before ROTC, interest expense, net and income taxes		76,291		79,952
ROTC		4,057		8,175
Interest (income) / expense, net		(2,606)		9,426
Earnings before income taxes	$	74,840	$	62,351

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, 2009 ("2009 Form 10-K"). The discussion under the subheading "Review of Operating Segments" below is in local currency (i.e., had exchange rates not changed year over year) unless otherwise indicated. Company management considers local currency change to be an important measure because by excluding the impact of volatility of exchange rates, underlying volume change is clearer. Dollar amounts discussed below are in thousands, unless otherwise indicated, except per share dollar amounts. In addition, per share dollar amounts are discussed on a diluted basis. The Company utilizes certain estimates and assumptions that affect the reported financial information as well as to quantify the impact of various significant factors that contribute to the changes in the Company's periodic results included in the discussion below.

The matters discussed in this Quarterly Report on Form 10-Q contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. 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 "anticipate", "should", "believe", "estimate", "expect", "intend", "plan", "predict", "potentia expressions about matters that are not historical facts. Forward-looking statements contained in this and other written and oral reports are based on current Company expectations and are subject to risks and uncertainties, which could cause actual results to differ materially. Such risks and uncertainties include, but are not limited to, those discussed in Part I, Item 1A, "Risk Factors" in the 2009 Form 10-K, and other reports the Company files with the Securities and Exchange Commission, including the impact of the current global recessionary environment and its likely depth and duration, the current credit market crisis, volatility in currency exchange rates and energy costs and other macro economic challenges currently affecting the Company, our customers (including their cash flow and payment practices) and vendors, the effectiveness of our initiatives to mitigate the impact of the current environment, and the Company's ability to successfully complete its business improvement initiatives that include integrating and upgrading its information systems and the effect of a serious disruption in the Company's information systems on its business and results of operations. The Company makes these statements as of the date of this disclosure and undertakes no obligation to update them.

Results of Operations

Review of Consolidated Results

Sales in the first quarter of fiscal year 2010 decreased 5.4% to $546,939 from $578,022 in the first quarter of fiscal year 2009. Exchange rates used to translate foreign subsidiary results into U.S. Dollars increased reported sales by $8,764, primarily due to the weakening of the U.S. Dollar against the Euro, Japanese Yen and Australian Dollar, partly offset by the strengthening of the U.S. Dollar against the British Pound. In local currency, sales decreased 6.9%. Increased pricing achieved in both the Life Sciences and Industrial segments contributed $2,791, or 0.5%, to overall sales in the quarter. Life Sciences segment sales increased 7.1% (in local currency), attributable to growth in the BioPharmaceuticals and Medical markets. Industrial segment sales decreased 15.5% (in local currency) reflecting declines in the Energy, Water & Process Technologies ("EWPT"), Aerospace & Transportation and Microelectronics markets. Overall systems sales decreased 9.6% (in local currency), as growth in the EWPT market was offset by decreases in all other markets. Systems sales represented 10.1% of total sales compared to 10.4% in the first quarter of fiscal year 2009. For a detailed discussion of sales, refer to the section "Review of Operating Segments" below.

Gross margin in the first quarter of fiscal year 2010 increased to 49.4% from 48.3% in the first quarter of fiscal year 2009, reflecting an improvement in gross margin in the Life Sciences segment, partly offset by a decline in gross margin in the Industrial segment. An increase in pricing in both segments, contributed about 26 basis points to the overall gross margin improvement. The improvement in Life Sciences gross margin primarily reflects favorable mix, as well as the benefit of cost savings and efficiency initiatives. The decline in Industrial gross margin primarily reflects underabsorption of manufacturing overhead due to volume reduction. For a detailed discussion of gross margin by segment, refer to the section "Review of Operating Segments" below.

Selling, general and administrative ("SG&A") expenses in the first quarter of fiscal year 2010 decreased by $3,848, or 2.1% (3% in local currency), as decreases in spending in the Industrial segment and Corporate were partly offset by an increase in the Life Sciences segment. As a percentage of sales, SG&A expenses were 32.3% compared to 31.2% in the first quarter of fiscal year 2009. The increase in SG&A as a percentage of sales primarily reflects the impact of decreased sales period over period. For a detailed discussion of SG&A by segment, refer to the section "Review of Operating Segments" below.

Research and development ("R&D") expenses were $17,249 in the first quarter of fiscal year 2010 compared to $18,933 in the first quarter of fiscal year 2009, a decrease of 8.9% (8.4% in local currency). The decrease in R&D primarily relates to reductions in short-term spending due to the economic downturn. As a percentage of sales, R&D expenses were 3.2% compared to 3.3% in the first quarter of fiscal year 2009.

In the first quarter of fiscal year 2010, the Company recorded restructuring and other charges ("ROTC") of $4,057. ROTC in the quarter was primarily comprised of severance and other costs related to the Company's ongoing cost reduction initiatives, an increase to previously established environmental reserves and legal fees related to matters that were under inquiry by the audit committee (see 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")).

In the first quarter of fiscal year 2009, the Company recorded ROTC of $8,175. ROTC in the quarter was primarily comprised of a charge to write-off in-process research and development acquired in the acquisition of GeneSystems, SA (see Note 2, Acquisitions, to the consolidated financial statements included in the Company's 2009 Form 10-K, for further discussion of purchase accounting), a charge primarily for the other-than-temporary diminution in value of certain equity investments held by its benefits protection trust, severance and other exit costs related to the Company's on-going cost reduction initiatives and increases to previously established environmental reserves. Additionally, ROTC includes legal fees related to matters that were under inquiry by the audit committee (see Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the Company's 2007 Form 10-K).

The details of ROTC for the three months ended October 31, 2009 and October 31, 2008 can be found in Note 7, Restructuring and Other Charges, Net, to the accompanying condensed consolidated financial statements.

The following table summarizes the activity related to restructuring liabilities that were recorded in the three months ended October 31, 2009 and in fiscal year 2009.

	Severance	Lease Termination Liabilities & Other	Total
2010			
Original charge	$ 1,428	$ 1,980	