PALL CORP
Form 10-K
September 29, 2008

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

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

or

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

Commission File Number 001- 04311
PALL CORPORATION
(Exact name of registrant as specified in its charter)

New York	**11-1541330**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 Northern Boulevard, East Hills, NY	**11548**
(Address of principal executive offices)	(Zip Code)

(516) 484-5400
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value Common Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

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

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (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 Rule12b-2 of the Act). Yes o No þ
The aggregate market value of the registrant s common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on January 31, 2008 (the last business day of the registrant s most recently completed second fiscal quarter) was $4,516,443,478.
On September 22, 2008, there were 119,357,527 outstanding shares of the registrant s common stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s proxy statement for the 2008 annual meeting of shareholders, scheduled to be held on November 19, 2008 (hereinafter referred to as the Proxy Statement), are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS.

GENERAL:

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

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

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

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

The Company is in substantial compliance with federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. To date, compliance with environmental matters has not had a material effect upon the Company s capital expenditures or competitive position. For a further description of environmental matters in this report, see Part I Item 3 Legal Proceedings, and Note 13, Contingencies and Commitments, to the accompanying consolidated financial statements.

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

For financial information of the Company by operating segment and geography, please see Note 17, Segment Information and Geographies, to the accompanying consolidated financial statements and the information under the caption Review of Operating Segments in Management s Discussion and Analysis of Financial Condition and Results of Operations (Part II Item 7 of this report).

The Company s website address is www.pall.com. The Company s reports filed with the U.S. Securities and Exchange Commission (SEC) are also available free of charge on its website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information. Financial and other information can also be accessed on the investor section of the Company s website at www.pall.com. The Company makes available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (516) 484-5400 or by sending a request to

Pall Corporation, 2200 Northern Blvd., East Hills, NY, 11548. Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

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

OPERATIONS:

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

The global drivers for the filtration, separation and purification market include, increasing potable water and energy demand, emerging pathogens, environmental issues, industrial globalization and consolidation, increasing government regulations and process innovation and optimization. These all require more and ever finer levels of filtration, separation and purification. Opportunities to filter water exist in every one of the Company s markets. The Company has a balanced portfolio of products that are sold into diversified markets. The Company s strategy for growth includes capitalizing on new markets for its products in high-growth geographies such as Asia, Eastern Europe, the Middle East and Latin America as well as focusing on high-growth markets such as biotechnology, cell therapy, vaccine production, micro and macroelectronics, next-generation aircraft, energy and water. The Company s products help to meet the evolving needs of markets worldwide.

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

The Company is executing a full suite of initiatives aimed at strengthening its processes while increasing efficiency and reducing costs. Such improvement initiatives include the facilities rationalization program in which the Company is consolidating manufacturing, reducing its footprint and realigning plants with its customers general locations. The Company is also executing major initiatives to streamline processes and infrastructure.

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Competition is intense in all of the Company s markets and includes numerous large companies and many smaller regional competitors. In many cases, the Company s primary competition comes from alternative, often older, technologies, such as in beer production from pasteurization, as opposed to sophisticated filtration of the kind Pall provides. The Company believes that no one competitor overlaps in more than about 20% (based on revenues) of its business. In many markets, there are significant barriers to entry limiting the number of qualified suppliers. These barriers result from stringent product performance standards, product qualification protocols and requirements for consistent levels of global service and support. The Company s broad array of patented materials and product designs coupled with its engineering and manufacturing expertise and global reach enable it to provide customers with differentiated product performance and value and global customer support.

LIFE SCIENCES SEGMENT:

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

Safety, quality, efficacy, ease of use, technical support, product delivery and price are all important considerations among the Company s Life Sciences customers. Pricing for blood filtration products has become more of a consideration as the Company s customers have increasingly become large centralized procurers, such as blood centers in the Western Hemisphere and nationalized blood services in Europe and Asia. The backlog for the Life Sciences segment at July 31, 2008 was approximately $140,285,000 (all of which is expected to be shipped in fiscal year 2009) compared with $115,095,000 at July 31, 2007.

MEDICAL MARKET:

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

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

The backlog for the Medical market at July 31, 2008 was approximately $45,390,000 (all of which is expected to be shipped in fiscal year 2009) compared with $29,158,000 at July 31, 2007. The Company s principal competitors in the Medical market include Fenwal, Inc., MacoPharma Group, Fresenius Medical Care AG & Co., Millipore Corporation, GE Healthcare (a unit of General Electric Company (GE)), Tyco International Ltd., Teleflex Incorporated, Terumo Medical Corporation, and Capital Health Inc.

BIOPHARMACEUTICALS MARKET:

The Company sells separation systems and disposable filtration and purification technologies primarily to pharmaceutical and biotechnology companies for use by them in the development and commercialization of chemically synthesized and biologically derived drugs and vaccines. The Company provides a broad range of advanced filtration solutions for each critical stage of drug development through drug production. Its filtration systems and validation services assist drug manufacturers through the regulatory process and on to the market.

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

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

Company management believes that the Company s established record of product performance and innovation, as well as its ability to sell and globally support a complete range of products, including its engineered systems, give it a strong competitive advantage among BioPharmaceutical customers because of the high costs and safety risks associated with drug development and production. The backlog for the BioPharmaceuticals market at July 31, 2008 was approximately $94,895,000 (all of which is expected to be shipped in fiscal year 2009) compared with $85,937,000 at July 31, 2007. Principal competitors in the BioPharmaceuticals market include Millipore Corporation, The Sartorius Group, CUNO (a 3M company) and GE Healthcare.

INDUSTRIAL SEGMENT:

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

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

Included in this diverse market are sales of filters, coalescers and integrated separation systems for hydraulic, fuel and lubrication systems on mechanical equipment to many industries, as well as to producers of energy (i.e., oil, gas, renewable and alternative fuels, electricity and chemicals), food and beverages, municipal and industrial water. Virtually all of the raw materials, process fluids and waste streams that course through industry are candidates for multiple stages of filtration, separation and purification. The growing demand for clean and green technology and increasing demand for water and energy also create growth opportunities for the Company.

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

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

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

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

AEROSPACE & TRANSPORTATION MARKET:

The Company sells filtration and fluid monitoring equipment to the aerospace industry for use on commercial and military aircraft, ships and land-based military vehicles to help protect critical systems and components. Commercial, Military and Industrial OEM sales represented 34%, 41% and 25%, respectively, of total Aerospace & Transportation sales in fiscal year 2008. Key growth drivers in this market include passenger air miles flown, military budgets, new military and commercial aircraft, and demand for new aircraft and mobile construction equipment in emerging geographic markets, particularly in Asia. Increasing environmental regulation faced by the Company s customers, as well as customer requirements for improved equipment reliability and fuel efficiency, are also driving growth.

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

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

MICROELECTRONICS MARKET:

The Company sells highly sophisticated filtration and purification technologies for the semiconductor, data storage, fiber optic, advanced display and materials markets. The Company provides a comprehensive suite of contamination control solutions for chemical, gas, water, chemical mechanical polishing and photolithography processes to meet the needs of this demanding industry. Integrated circuits, which control almost every device or machine in use today, require exceedingly high levels of filtration technologies, which Pall provides. While this part of the market is cyclical, Pall has strategically diversified into the consumer electronics market to lessen the impact of the industry s cycles. This strategic diversification into the macroelectronics side of the market is enabling the Company to capitalize on demand for computer gaming consoles, MP3 players, flat screen TVs and monitors, multimedia cell phones and ink jet printers and cartridges. These markets are typically less cyclical and just as filtration intensive. A newer application served by Microelectronics is the growing production of solar cells.

The Company s products are sold to customers in this market through its own personnel, distributors and manufacturers representatives. The backlog at July 31, 2008 was approximately $24,430,000 (of which approximately $22,900,000 is expected to be shipped in fiscal year 2009) compared with $30,537,000 at July 31, 2007. Company management believes that performance, product quality, innovation and service are the most important factors in the majority of sales in this market. The Company s principal competitors of the Company s Microelectronics technologies market include Entegris, Inc. and Mott Corporation.

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

RAW MATERIALS:

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

PATENTS:

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

ITEM 1A. RISK FACTORS.

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

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

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

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

The Company cannot predict whether any monetary losses it experiences in the proceedings will be covered by insurance or whether insurance proceeds recovered will be sufficient to offset such losses. Pending civil, regulatory and criminal proceedings may also divert the efforts and attention of the Company s management from business operations, particularly if adverse developments are experienced in any of them, such as an expansion of the investigations being conducted by the SEC and the Department of Justice. See Part I Item 3 Legal Proceedings, for further discussion of these pending matters.

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

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

- the geographical mix of income derived from the countries in which it operates;
- currently applicable tax rates, including particularly in the United States;
- the nature, timing and impact of permanent or temporary changes in tax laws or regulations, including the termination or extension of provisions under U.S. federal income tax law that are or may become subject to sunset, such as research and development credits and incentives related to U.S. domestic production;
- the timing and amount of the Company s repatriation of foreign earnings;
- the timing and nature of the Company s resolution of uncertain income tax positions; and
- the Company s success in managing its effective tax rate through the implementation of global tax and cash management strategies.

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The Company operates in numerous countries and is subject to taxation in all of the countries in which it operates. The tax rules and regulations in such countries can be complex and, in many cases, uncertain in their application. In addition to challenges to the Company s tax positions arising during routine audits, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company s business conducted within the country involved and with respect to intercompany transactions when the parties are taxed in different jurisdictions. Pending proceedings to which the Company is subject include ongoing audits of the Company s tax returns for some of the periods affected by the restatement, and the Company cannot predict the timing or outcome of the completion of those audits, which could result in the imposition of additional taxes and substantial penalties. See Litigation and regulatory inquiries associated with the restatement of the Company s prior period financial statements could result in substantial costs, penalties and other adverse effects.

Changes in product mix and product pricing may affect the Company s operating results particularly with the expansion of the systems business, in which the Company experiences significantly longer sales cycles with less predictable revenue and no certainty of future revenue streams from related consumable product offerings and services.

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

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

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

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

The Company may not be able to achieve the savings anticipated from its cost reduction and margin improvement initiatives, including the timing of completion of its facilities rationalization initiative.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company conducts operations around the globe. The Company expects to continue to derive a substantial portion of sales and earnings from outside the United States. A recession in the United States could have a negative impact on demand for the Company s products not only in the United States, but also globally. Sales and earnings could also be affected by the Company s ability to manage the risks and uncertainties associated with the application of local legal requirements or the enforceability of laws and contractual obligations, trade protection measures, changes in tax laws, regional political instability, war, terrorist activities, severe or prolonged adverse weather conditions and natural disasters as well as health epidemics or pandemics.

The Company may be adversely affected by the current economic environment

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

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

The Company s information technology (IT) systems are an integral part of its business. A serious disruption of its IT systems, whether caused by fire, storm, flood, telecommunications failures, physical or software break-ins or viruses, or any other events, could have a material adverse effect on the Company s business and results of operations. The Company depends on its IT systems to: process customer orders and invoices, provide customer service, collect accounts receivable, purchase products from its suppliers, manage inventory, and consolidate these and other transactions for its financial reporting and monitoring mechanisms. The Company cannot provide assurance that its contingency plans will allow it to operate at its current level of efficiency in the event of a serious IT disruption.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

Federal Securities Class Actions:

Four putative class action lawsuits were filed against the Company and certain members of its management team alleging violations of the federal securities laws relating to the Company s understatement of certain of its U.S. income tax payments and of its provision for income taxes in certain prior periods as described in Note 2, Audit Committee Inquiry and Restatement to the consolidated financial statements included in the 2007 Form 10-K. These lawsuits were filed between August 14, 2007 and October 11, 2007 in the United States District Court for the Eastern District of New York. By Order dated May 28, 2008, the Court consolidated the cases under the caption In re Pall Corp, No. 07-CV-3359 (E.D.N.Y.) (JS) (ARL), appointed a lead plaintiff and ordered that the lead plaintiff file a consolidated amended complaint. The lead plaintiff filed its consolidated amended complaint on August 4, 2008. The lead plaintiff seeks to act as representative for a class consisting of purchasers of the Company s stock between April 20, 2007, and August 2, 2007, inclusive. The consolidated amended complaint names the Company, Eric Krasnoff and Lisa McDermott as defendants and alleges violations of Section 10(b) and 20(a) of the Exchange Act, as amended, and Rule 10b-5 promulgated by the Securities and Exchange Commission. It alleges that the defendants violated these provisions of the federal securities laws by issuing materially false and misleading public statements about the Company s financial results and financial statements, including the Company s income tax liability, effective tax rate, internal controls and accounting practices. The plaintiffs seek unspecified compensatory damages, costs and expenses. The Company moved to dismiss the consolidated amended complaint on September 19, 2008.

Shareholder Derivative Lawsuits:

On October 5, 2007, two plaintiffs filed identical derivative lawsuits in New York Supreme Court, Nassau County relating to the tax matter described above. These actions purport to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties by failing to evaluate and otherwise inform themselves about the Company s internal controls and financial reporting systems and procedures. In addition, plaintiffs allege that certain officers of the Company were unjustly enriched as a result of the Company s inaccurate financial results over fiscal years 1999-2006 and the first three quarters of fiscal year 2007. The complaints seek unspecified compensatory damages on behalf of Pall Corporation, disgorgement of defendants salaries, bonuses, stock grants and stock options, equitable relief and costs and expenses. The Company, acting in its capacity as nominal defendant, moved to dismiss the complaints for failure to make a demand upon the Company s board of directors, which motions were granted on April 30 and May 2, 2008. On September 19, 2008, the same two plaintiffs filed a derivative lawsuit in New York Supreme Court, Nassau County, which was served on the Company on September 26, 2008. This action purports to bring claims on behalf of the Company based on allegations that certain current and former directors and officers of the Company breached their fiduciary duties and were unjustly enriched in connection with the tax matter. In addition, the plaintiffs allege that the Board s refusal of their demand to commence an action against the defendants was not made in good faith.

Another shareholder derivative lawsuit relating to the tax matter described above was filed in the United States District Court for the Eastern District of New York on January 10, 2008. This action purports to bring claims on behalf of the Company based on allegations that certain of the current directors of the Company breached their

fiduciary duties and were unjustly enriched in connection with the tax matter described above. The complaint seeks unspecified compensatory damages on behalf of Pall Corporation, disgorgement of defendants profits, benefits and other compensation, equitable and non-monetary relief, and costs and expenses. The Company, acting in its capacity as nominal defendant, moved to dismiss the complaint for lack of subject matter jurisdiction over the complaint. On May 23, 2008, the plaintiff filed a notice of voluntary dismissal without prejudice, which was subsequently granted by the Court.

Other Proceedings:

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

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Environmental Matters:

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

The Company s balance sheet at July 31, 2008 contains environmental liabilities of $14,749,000, which relate to the items discussed below. In the opinion of Company management, the Company is in substantial compliance with applicable environmental laws and regulatory orders and its accruals for environmental remediation are adequate at this time.

Reference is also made to Note 13, Contingencies and Commitments, to the accompanying consolidated financial statements.

Ann Arbor, Michigan:

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

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

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

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

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By letter dated June 15, 2007, the Michigan Department of Environmental Quality (DEQ) claimed Gelman was in violation of the Consent Judgment and related work plans due to its failure to operate a groundwater extraction well in the Evergreen Subdivision at the approved minimum purge rate. The DEQ sought to assess stipulated penalties. Gelman filed a Petition for Dispute Resolution with the court on July 6, 2007 contesting these penalties. Prior to the hearing on Gelman s petition, the parties met and the DEQ agreed to waive these penalties in exchange for Gelman s agreement to perform additional investigations in the area. The Court entered a Stipulated Order to this effect on August 7, 2007. Since then, Gelman has installed several monitoring wells requested by the State. Representatives of Gelman and the State met on December 10, 2007 to discuss the data obtained from these wells and to plan further investigative activities. These discussions are ongoing. On April 15, 2008, Gelman submitted two reports summarizing the results of the investigation to date. Gelman also submitted a capture zone analysis that confirmed that Gelman was achieving the cleanup objective for the Evergreen Subdivision system. On June 23, 2008, the State provided its response to these reports. The response also addressed outstanding issues regarding several other areas of the site. In its response, the State asked the Company to undertake additional investigation in the Evergreen Subdivision area and in other areas of the site to more fully delineate the extent of contamination. The State also asked the Company to capture additional contaminated groundwater in the Wagner Road area, near the Gelman property, unless the Company can show that it is not feasible to do so. Gelman proposed to the DEQ several modifications to the Consent Judgment on August 1, 2008 and met with the DEQ to discuss these modifications (and other outstanding issues) on September 15, 2008. The parties agreed that Gelman would prepare and submit to the DEQ an outline for modifications to the existing Consent Judgment (and Administrative Orders) by October 15, 2008 and that the parties would meet thereafter to discuss.

Pinellas Park, Florida:

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

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

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

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

Pursuant to FDEP requirements, the Company installed additional on-site and off-site monitoring wells during 2006, 2007 and 2008. Groundwater analytical results have been provided to FDEP. Once the delineation has been declared complete by FDEP, the Company will complete and submit a Site Assessment Report Addendum, summarizing the soil and groundwater contamination, delineation and remediation.

Active remediation through the fourth quarter of fiscal year 2008 was performed in accordance with work defined in the ISRP and addenda approved by FDEP. Additional remediation may be required to satisfy site closure requirements, which include (1) no free product contaminants, (2) shrinking or stable plumes, and (3) prevention of future exposure of the public or environment through recordation of restrictive covenants prohibiting groundwater use. The first two requirements will be demonstrated through groundwater monitoring; a local law firm is preparing restrictive covenants and assisting Pall management during preliminary discussions with the owners of adjacent

properties.

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

Glen Cove, New York:

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

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

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

The Company met with NYSDEC representatives on April 12, 2007 to discuss a possible settlement of liability for OU-1 and for the contamination in the deep groundwater zone, termed OU-2. NYSDEC would not agree to settle OU-2 because a remedial investigation has not been completed. On October 23, 2007, NYSDEC requested submittal of a RD/RA Work Plan, which the Company submitted on December 20, 2007. The Company has pursued possible settlement of liability for OU-1 and met with NYSDEC again on November 30, 2007 to present a settlement framework. On December 20, 2007, the Company submitted a description of the settlement framework for NYSDEC s further review. On April 15, 2008, the Company met with NYSDEC staff to discuss settlement terms and reached conceptual agreement on settlement for liability for OU-1. In an April 18, 2008 letter, NYSDEC confirmed its acceptance of the conceptual settlement. On August 13, 2008, the Company received for review and comment a proposed Consent Decree to settle this matter.

The ROD for OU-2 has been deferred by NYSDEC until additional data is available to delineate contamination and select an appropriate remedy. NYSDEC requested that the Company and Photocircuits enter into a joint Order on Consent for the remedial investigation. Photocircuits was not willing to enter into an Order and the Company was informed by NYSDEC that it would undertake the OU-2 investigation at the Photocircuits property. Photocircuits is now in Chapter 11 bankruptcy and, in or about March 2006, the assets of Photocircuits Glen Cove facility were sold to American Pacific Financial Corporation (AMPAC). AMPAC operated the facility under the Photocircuits name, but closed it on or about April 15, 2007.

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

Hauppauge, New York:

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

groundwater at its property, which then migrated to the Site, and seeks indemnification and contribution under Section 113 of CERCLA from third-party defendants, including the Company, in the event she is liable to Chitayat.

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

In 2005, the plaintiff moved to amend his complaint to add a claim for contribution under Section 113 of CERCLA against the Company, and the Company opposed the proposed amendment. In March 2006, the Court terminated the plaintiff s motion to amend, and plaintiff has not renewed his motion. As a result, the only claim asserted against the Company is by Barbara Gross.

The NYSDEC has designated two OUs associated with the Site. OU-1 relates to the on-site contamination at 90, 100 and 110 Oser Avenue, and represents the geographic area which Chitayat alleges will result in response costs in excess of $3,000,000. OU-2 relates to off-site groundwater contamination migrating away from the Site. In January 2006, the NYSDEC issued a ROD selecting a remedial program for OU-2 which is projected to cost approximately $4,500,000 to implement.

Fact discovery in the case was completed in January 2006. Experts for plaintiff, Barbara Gross, Vanderbilt Associates and the Company served expert reports in March and April 2006, and expert discovery was concluded in May 2006. There is a dispute among the experts as to whether contaminants from the Company s facility have contributed to cleanup costs at the Site and, if so, to what extent. In September 2006, the Court established a briefing schedule for all parties to submit summary judgment motions, and for Barbara Gross and the Company to make motions to strike certain expert testimony. Third-party defendants, including the Company, filed motions for summary judgment on October 6, 2006. The Company also filed motions to strike certain expert testimony. Plaintiff filed opposition papers with the Court on November 6, 2006, and the moving third-party defendants, including the Company, filed reply papers on November 20, 2006.

While the motions were pending, the parties enlisted the aid of a mediator to negotiate a settlement of the case. The parties met with the mediator on July 30 through August 1, 2007, which resulted in a tentative settlement agreement, subject to drafting of definitive settlement documents. During the process of negotiating the settlement documents, a disagreement developed between the plaintiff and the primary defendants as to the terms of establishment of the settlement fund that had been agreed upon at the mediation. Although the plaintiff and the primary defendants continued in discussions for several months, this dispute has not been resolved. The discussions appear to have ceased and the proposed settlement has not yet been achieved.

The summary judgment motions remains pending without a decision. On September 27, 2007, the Court issued a decision on the Company s motions *in limine* to preclude testimony by the experts for plaintiff and third-party plaintiff Barbara Gross, granting the motions in part and denying them in part.

If the settlement were completed as contemplated, the Company s responsibility would be fixed and it would be released from further liability to the plaintiff or third-party plaintiffs. Because it is not completed, if the Company s motion for summary judgment is denied, the case will continue. If that happens, the Company will remain subject to potential liability and an allocation of some portion of the response costs paid by plaintiff to the State of New York.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The Annual Meeting of Shareholders of the Company was held on May 28, 2008.

(b) Proposal I Election of Directors

Holders of 101,843,890 shares of common stock voted either in person or by proxy for the election of five directors. The number of votes cast for each nominee were as indicated below:

Director	Total vote for each director	Total vote withheld for each director
Cheryl W. Grisé	100,219,528	1,624,362
John H. F. Haskell, Jr.	95,908,692	5,935,198
Katharine L. Plourde	94,196,422	7,647,468
Heywood Shelley	94,387,021	7,456,869
Edward Travaglianti	95,881,386	5,962,504

Directors whose term of office continues past the Annual Meeting of Shareholders are Ulric S. Haynes, Jr.; Edwin W. Martin, Jr.; Daniel J. Carroll, Jr.; Eric Krasnoff; Dennis N. Longstreet; and Edward L. Snyder.

(c) Proposal II Ratify the Appointment of KPMG LLP as Independent Registered Public Accounting Firm for Fiscal Year 2008.

The proposal was approved as follows:

Shares For	Shares Against	Abstain
98,169,846	2,708,966	965,078

Proposal III Amendment of Pall Corporation Employee Stock Purchase Plan

The proposal was approved as follows:

Shares For	Shares Against	Abstain	Nonvotes
82,226,641	908,780	1,061,838	17,646,631

(d) Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age[1]	Current Positions Held	First Appointed an Executive Officer
Eric Krasnoff[2]	56	Chairman and Chief Executive Officer	1986
Lisa McDermott	43	Chief Financial Officer and Treasurer	2006
Donald B. Stevens	63	President and President, Industrial	1994
Roberto Perez	59	Group Vice President and President, Life Sciences	2003
Sandra Marino	38	Senior Vice President and General Counsel	2008

(1) Age as of September 22, 2008.

(2) Mr. Krasnoff is a director of the Company and member of the board s executive committee.

None of the persons listed above is related.

For more than the past five years, the principal occupation of persons listed above has been their employ by the registrant, except for Ms. Marino. Ms. Marino has been employed by the registrant since January 2005, as Corporate Counsel and Assistant Corporate Secretary. She was promoted to Corporate Secretary in March 2008 and Senior Vice President and General Counsel as of September 1, 2008. Prior to January 2005, she was employed as a corporate attorney at Carter Ledyard & Milburn LLP.

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

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PART II

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

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

	2008		2007		Cash Dividends Declared Per Share	
Price per share	**High**	**Low**	**High**	**Low**	**2008**	**2007**
Quarter: First	$ 44.55	$ 33.46	$ 32.20	$ 25.26	$ 0.24	$ 0.11
Second	42.26	33.37	35.57	30.58	0.12	0.12
Third	41.48	34.01	42.15	33.70	0.13	0.12
Fourth	43.19	34.33	49.00	38.43	0.13	

As of September 22, 2008 there were approximately 3,527 holders of record of the Company s common stock. Dividends are paid when, as and if declared by the board of directors of the Company.

PERFORMANCE GRAPH

The following graph compares the annual change in the cumulative total return on the Company s common stock during the Company s last five fiscal years with the annual change in the cumulative total return of the Standard & Poor s Composite-500 Index and the Standard & Poor s Industrial Machinery Index (which includes the Company). The graph assumes an investment of $100 on August 1, 2003 (the last trading day of the Company s fiscal year 2003) and the reinvestment of all dividends paid during the last five fiscal years.

	1-Aug-03	30-Jul-04	29-Jul-05	31-Jul-06	31-Jul-07	31-Jul-08
Pall Corp.	$100	$103	$140	$120	$193	$191
S&P 500	$100	$114	$130	$137	$160	$142
S&P Industrial Machinery	$100	$130	$141	$147	$190	$174

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The following table provides information with respect to purchases made by or on behalf of the Company or any affiliated purchaser of the Company s common stock during the quarter ended July 31, 2008.

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
	(In thousands, except per share data)					
May 1, 2008 to May 31, 2008	1,136	$	35.23	1,136	$	230,021
June 1, 2008 to June 30, 2008						
July 1, 2008 to July 31, 2008	782		39.16	782	$	199,382
Total	1,918	$	36.83	1,918		

(1) On October 14, 2004, the Company s board of directors authorized the expenditure of up to $200,000 for the repurchase of shares of the Company s common stock. On November 15, 2006, the board authorized an additional expenditure of $250,000 to repurchase shares. The Company s shares may be purchased over time, as market and business

conditions warrant. There is no time restriction on this authorization. During the fourth quarter of fiscal year 2008, the Company purchased 1,918 shares in open-market transactions at an aggregate cost of $70,639, with an average price per share of $36.83. Total repurchases in fiscal year 2008 were 4,056 shares at an aggregate cost of $148,850, with an average price per share of $36.70. The aggregate cost of repurchases in fiscal years 2007 and 2006 was $61,795 (1,586 shares at an average price per share of $38.98) and $100,727 (3,556 shares at an average price per share of $28.33), respectively. As of July 31, 2008, $199,382 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 fourth quarter and full year of fiscal year 2008, 7 shares were traded in by employees in payment of stock option exercises at an average price of $41.84 per share and an aggregate cost of $293.

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ITEM 6. SELECTED FINANCIAL DATA.

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

(In millions, except per share data)	2008	2007	2006	2005	2004
RESULTS FOR THE YEAR:					
Net sales	$ 2,571.6	$ 2,249.9	$ 2,016.8	$ 1,902.3	$ 1,770.7
Cost of sales	1,360.8	1,190.5(a)	1,072.8(a)	978.9(a)	899.1
Gross profit	1,210.8	1,059.4	944.0	923.4	871.6
Selling, general and administrative expenses	749.5	675.0	641.0	621.4	583.5
Research and development	71.6	62.4	57.3	56.2	57.3
Restructuring and other charges, net	31.5	22.4	12.3	38.8	12.5
Interest expense, net	32.6	39.1	30.2	30.0	23.6
Earnings before income taxes	325.6	260.5	203.2	177.0	194.7
Provision for income taxes	108.3	133.0	151.1	63.3	71.0
Net earnings	$ 217.3(b)	$ 127.5(b)	$ 52.1(b)	$ 113.7	$ 123.7
Earnings per share:					
Basic	$ 1.77	$ 1.04	$ 0.42	$ 0.91	$ 0.98
Diluted	1.76	1.02	0.41	0.91	0.98
Dividends declared per share	0.62	0.35	0.43	0.39	0.36
Capital expenditures	$ 123.9	$ 97.8	$ 96.0	$ 86.2	$ 61.3
Depreciation and amortization of long-lived assets	$ 93.2	$ 94.0	$ 95.7	$ 90.9	$ 88.9
YEAR-END POSITION:					
Working capital	$ 1,085.7(c)	$ 774.2	$ 653.3	$ 598.1	$ 542.7
Property, plant and equipment, net	663.0	607.9	621.0	608.8	600.4
Total assets	2,956.7	2,708.8	2,461.3	2,185.3	2,112.7
Long-term debt, net of current portion	747.1	591.6	640.0	510.2	488.7
Total liabilities	1,817.5	1,648.2	1,524.2	1,193.2	1,179.2
Stockholders equity	1,139.2	1,060.6	937.1	992.1	933.5

a) Includes $2.8, $1.7 and $0.8 of adjustments recorded in cost of sales in fiscal years 2007, 2006 and 2005, respectively. The adjustments

include a one-time purchase accounting adjustment to record, at market value, inventory acquired from the BioSepra® Process Division (BioSepra) of Ciphergen Biosystems, Inc. This resulted in a $2.4 increase in acquired inventories in fiscal year 2005, in accordance with SFAS No. 141, Business Combinations (SFAS No. 141), in the opening balance sheet and an increase in cost of sales of $0.6, $0.9 and $0.8 in fiscal years 2007, 2006 and 2005, respectively, concurrent with the sale of a portion of the underlying inventory. The adjustment is considered non-recurring in nature because, although the Company acquired the manufacturing operations of BioSepra, this adjustment was required by

SFAS No. 141 as an elimination of the manufacturing profit in inventory acquired from BioSepra and subsequently sold in the period. The adjustments recorded in cost of sales also reflect $2.2 and $0.8 in fiscal years 2007 and 2006, respectively, primarily comprised of incremental depreciation from the planned early retirement of certain fixed assets recorded in conjunction with the Company s facilities rationalization initiatives in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144).

b) Effective August 1, 2005, the Company adopted SFAS 123(R), Share Based Payment (SFAS

No. 123(R)). The years ended July 31, 2008, July 31, 2007 and July 31, 2006 include stock-based compensation expense related to stock options and the employee stock purchase plan of $5.2, $4.7 and $7.2, respectively, after pro forma tax effect (4, 4 and 6 cents per share, respectively).

c) Non-cash working capital at July 31, 2008 has been impacted by the adoption of a new accounting standard, FIN No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). Consistent with the provisions of FIN No. 48, the Company has reclassified certain tax related assets and liabilities from current to non-current. Such reclassifications had the effect of increasing non-cash working capital

at July 31, 2008
by
approximately
$137.0.

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

Forward-Looking Statements and Risk Factors

You should read the following discussion together with the accompanying consolidated financial statements and notes thereto and other financial information in this Form 10-K. The discussions under the subheadings Review of Operating Segments below are in local currency unless indicated otherwise. Company management considers local currency growth an important measure because by excluding the 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 matters discussed in this Annual Report on Form 10-K contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements 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. 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. Such risks and uncertainties included, but are not limited to, those discussed in Part I, Item 1A, Risk Factors in this Form 10-K. The Company makes these statements as of the date of this disclosure and undertakes no obligation to update them.

Critical Accounting Policies and Estimates

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

Income Taxes

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

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

Purchase Accounting and Goodwill

Determining the fair value of certain assets and liabilities acquired in a business combination in accordance with SFAS No. 141 is judgmental in nature and often involves the use of significant estimates and assumptions. There are various methods used to estimate the value of tangible and intangible assets acquired, such as discounted cash flow and market multiple approaches. Some of the more significant estimates and assumptions inherent in the two approaches include: projected future cash flows (including timing); discount rates reflecting the risk inherent in the future cash flows; perpetual growth rate; determination of appropriate market comparables; and the determination of

whether a premium or a discount should be applied to comparables. There are also judgments made to determine the expected useful lives assigned to each class of assets and liabilities acquired.

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. The Company performs goodwill impairment tests at least annually, including whenever events or circumstances indicate impairment might have occurred. In response to changes in industry and market conditions, the Company may strategically realign its resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of goodwill. Based on impairment tests performed, there was no impairment of goodwill in fiscal years 2008, 2007 and 2006.

Revenue Recognition

Revenue is recognized when title and risk of loss have transferred to the customer and when contractual terms have been fulfilled. Transfer of title and risk of loss occurs when the product is delivered in accordance with the contractual shipping terms. In instances where contractual terms include a provision for customer acceptance, revenue is recognized when either (i) the Company has previously demonstrated that the product meets the specified criteria for contracts with acceptance provisions based on either seller or customer-specified objective criteria or (ii) upon formal acceptance received from the customer for contracts with acceptance provisions where the product has not been previously demonstrated to meet customer-specified objective criteria. Revenue for contracts which are accounted for under the percentage of completion method is based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses.

Allowance for Doubtful Accounts

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

Inventories

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

Recoverability of Available-for-Sale Investments

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

Defined Benefit Retirement Plans

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

by the Company.

Pension expense associated with the Company s defined benefit plans was $25,363 in fiscal year 2008, which was based on a weighted average discount rate of 5.70% (calculated using the projected benefit obligation) and a weighted average expected long-term rate of return on plan assets of 6.63% (calculated using the fair value of plan assets).

The expected rates of return on the various defined benefit pension plans assets are based on the asset allocation of each plan and the long-term projected return of those assets. If the expected long-term rate of return on plan assets was reduced by 50 basis points, projected pension expense in fiscal year 2008 would have increased approximately $1,300.

The objective of the discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. The Company s methodology for selecting the discount rate for the U.S. plans as of July 31, 2008 was to match the plan s cash flows to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. Benefit cash flows due in a particular year can be settled theoretically by investing them in the zero-coupon bond that matures in the same year. The discount rate is the single rate that produces the same present value of cash flows. The discount rate assumption for non-U.S. plans reflects the market rate for high-quality, fixed-income debt instruments. Both discount rate assumptions are based on the expected duration of benefit payments for each of the Company s pension plans as of the annual measurement date and is subject to change each year. If the weighted average discount rate was reduced by 50 basis points, pension expense in fiscal year 2008 would have increased by approximately $2,500.

Accrued Expenses and Contingencies

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

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

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

Results of Operations 2008 Compared with 2007

Review of Consolidated Results

Sales for the fiscal year 2008 increased 14.3% to $2.6 billion from $2.2 billion in fiscal year 2007. Exchange rates increased reported sales by $159,134, primarily due to the weakening of the U.S. dollar against the Euro, the British Pound, the Yen and various other Asian currencies. In local currency (i.e., had exchange rates not changed year over year), sales increased 7.2%. Increased pricing achieved in both the Life Sciences and Industrial segments contributed 1% to overall sales growth in the year and, as such, the overall volume increase was 6.2%.

Life Sciences segment sales increased 4.5% (in local currency), attributable to growth in the BioPharmaceuticals market, partly offset by a slight decrease in the Medical market. Industrial segment sales increased 9% (in local currency) driven by growth in the Energy, Water & Process Technologies market (formerly General Industrial) and Aerospace & Transportation markets, partially offset by decreased sales in the Microelectronics market. Overall systems sales increased 26.4%, representing 12.4% of total sales in fiscal year 2008 compared to 10.4% in fiscal year 2007, primarily attributable to strong sales in the BioPharmaceuticals, Energy, Water & Process Technologies and Aerospace & Transportation markets. Company management expects overall sales in local currency to increase in the range of 5% 6.5% in fiscal year 2009 compared to fiscal year 2008, with growth rates in both Life Sciences and Industrial falling within that range. For a detailed discussion of sales, refer to the section Review of Operating Segments below.

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Gross margin, as a percentage of sales, was 47.1% in fiscal year 2008 on par with fiscal year 2007. Improved pricing in both segments contributed approximately 50 basis points in margin. Gross margin has been favorably impacted by a change in market mix within consumables in the Life Sciences segment, improved profitability on certain systems sales in the Industrial segment and savings generated from the Company s facilities rationalization initiative and other manufacturing cost reduction and efficiency programs, including lean initiatives to improve labor productivity, that dampened estimated inflationary pressures on manufacturing costs. These factors were offset by the impact of a shift in product mix, to a higher percentage of systems sales (about 12.4% compared to 10.4% in fiscal year 2007), which are typically at lower margins than consumables, mix change within consumables to lower margin products in Industrial, and incremental costs related to the facilities rationalization initiative. The Company continued to make progress on its facilities rationalization initiative and in fiscal year 2008 completed the closure of a plant in Waldstetten, Germany. For a detailed discussion of gross margin by segment, refer to the section Review of Operating Segments below. Company management is targeting gross margin to be about 48.5% in fiscal year 2009, as expected pricing increases and surcharges as well as continued efficiencies from the Company s cost reduction initiatives are expected to more than offset inflationary pressures on operating costs.

Selling, general and administrative (SG&A) expenses in fiscal year 2008 increased by $74,514, or about 11% (approximately 5% in local currency). As a percentage of sales, SG&A expenses decreased to 29.1% from 30% in fiscal year 2007. The decrease in SG&A as a percentage of sales reflects the leveraging of growth in sales, and the impact of cost reduction initiatives, including the initiative to optimize the Company s European operations (EuroPall) partly offset by the impact of increased selling related expenses in the Industrial segment and an increase in Corporate expenses primarily attributable to increased professional fees related to tax and audit services as well as the addition of tax and treasury function personnel. In fiscal year 2007, the Company launched the equivalent of the EuroPall program in the Western Hemisphere (AmeriPall). This program is in the early implementation phase with the majority of the impact expected in fiscal year 2009 and beyond. In fiscal year 2009, Company management is expecting SG&A expenses, as a percentage of sales to be about 29%.

Research and development (R&D) expenses were $71,647 in fiscal year 2008 compared to $62,414 in fiscal year 2007, up about 15% year over year (approximately 13% in local currency). As a percentage of sales, R&D expenses were 2.8% on par with fiscal year 2007. In fiscal year 2009, Company management expects R&D expenses to increase approximately 15-20%.

In fiscal year 2008, the Company recorded restructuring and other charges (ROTC) of $31,538. ROTC in the year was primarily comprised of legal and other professional 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 2007 Form 10-K). Additionally, ROTC includes severance and other exit costs related to the Company s on-going cost reduction initiatives (including its facilities rationalization, EuroPall and AmeriPall initiatives), as well as an increase to previously established environmental reserves. Such charges were partly offset by the reversal of excess restructuring reserves recorded in the Company s consolidated statements of earnings in fiscal years 2007, 2006 and 2005.

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In fiscal year 2007, the Company recorded ROTC of $22,352, primarily related to the Company s on-going cost reduction initiatives (including its facilities rationalization, EuroPall and AmeriPall initiatives). The ROTC recorded in fiscal year 2007 was primarily comprised of severance, impairment charges related to the planned disposal of buildings and early retirement of certain long-lived assets, and other costs in connection with such initiatives. Additionally, the charges in fiscal year 2007 include an increase to previously established environmental reserves. Such charges were partly offset by the gain on the sale of the Company s corporate headquarters, an insurance settlement related to an environmental matter, and the reversal of excess restructuring reserves recorded in the Company s consolidated statements of earnings in fiscal years 2006 and 2005.

The details of ROTC for the years ended July 31, 2008, July 31, 2007 and July 31, 2006 can be found in Note 2, Restructuring and Other Charges, Net, to the accompanying consolidated financial statements.

The following table summarizes the activity related to restructuring liabilities that were recorded in fiscal years 2008, 2007, 2006 and 2005:

	Severance	Lease Termination Liabilities & Other	Total
2008			
Original charge	$ 8,814	$ 3,110	$ 11,924
Utilized	(8,059)	(2,849)	(10,908)
Other changes (a)	220	6	226
Balance at Jul. 31, 2008	$ 975	$ 267	$ 1,242
2007			
Original charge (b)	$ 22,083	$ 4,321	$ 26,404
Utilized	(6,146)	(3,573)	(9,719)
Other changes (a)	611	9	620
Balance at July 31, 2007	16,548	757	17,305
Utilized	(13,994)	(727)	(14,721)
Reversal of excess reserves (c)	(297)	(65)	(362)
Other changes (a)	1,281	57	1,338
Balance at Jul. 31, 2008	$ 3,538	$ 22	$ 3,560
2006			
Original charge	$ 13,335	$ 3,043	$ 16,378
Utilized	(7,221)	(2,900)	(10,121)
Other changes (a)	182	9	191
Balance at July 31, 2006	6,296	152	6,448
Utilized	(2,712)	(108)	(2,820)
Reversal of excess reserves (c)	(1,385)	(40)	(1,425)
Other changes (a)	126	2	128

Balance at July 31, 2007	2,325	6	2,331
Utilized	(1,414)	(6)	(1,420)
Reversal of excess reserves (c)	(56)		(56)
Other changes (a)	(4)		(4)
Balance at Jul. 31, 2008	$ 851	$	$ 851

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	Severance	Lease Termination Liabilities & Other	Total
2005			
Original charge	$ 17,496	$ 2,928	$ 20,424
Utilized	(8,404)	(2,739)	(11,143)
Other changes (a)	(86)	4	(82)
Balance at July 31, 2005	9,006	193	9,199
Utilized	(3,243)	(87)	(3,330)
Reversal of excess reserves (c)	(1,905)	(96)	(2,001)
Other changes (a)	57	3	60
Balance at July 31, 2006	3,915	13	3,928
Utilized	(2,531)		(2,531)
Reversal of excess reserves (c)	(811)	(15)	(826)
Other changes (a)	31	2	33
Balance at Jul. 31, 2007	604		604
Utilized	(442)		(442)
Reversal of excess reserves (c)	(164)		(164)
Other changes (a)	2		2
Balance at Jul. 31, 2008	$	$	$

(a) Other changes primarily reflect translation impact.

(b) Excludes $757 related to pension liabilities.

(c) Reflects the reversal of excess restructuring reserves originally recorded in fiscal years 2007, 2006 and 2005.

Earnings before interest and income taxes (EBIT) were $358,131 in fiscal year 2008 compared to $299,585 in fiscal year 2007 reflecting the factors discussed above. As a percentage of sales, EBIT was 13.9% compared to 13.3% in fiscal year 2007.

Net interest expense in fiscal year 2008 decreased to $32,576 from $39,056 in fiscal year 2007. The decline in net interest expense was principally attributable to a decrease in the amount of interest expense recorded due to a payment of $135,000 to the IRS related to the tax matter (for discussion of tax matter see Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K) partly offset by increased interest expense primarily related to higher debt levels in the U.S. compared to the same period last year.

In fiscal year 2008, the Company s effective tax rate was 33.2% as compared to 51.1% in fiscal year 2007. The decrease in the effective tax rate was primarily due to charges taken in fiscal year 2007 for the net tax cost of the anticipated repatriation of approximately $160,000 of foreign earnings and additional taxes provided on intercompany transactions net of an increase related to the mix of foreign earnings. The effective tax rate in fiscal year 2008 includes charges resulting from new tax legislation in certain foreign jurisdictions and an incremental tax expense of $2,436 related to cash repatriated in fiscal year 2008 under the plan discussed above. In fiscal year 2009, Company management expects its effective tax rate to start to improve compared to fiscal year 2008. See Note 10, Income Taxes, to the accompanying consolidated financial statements for further details on the components of the Company s effective tax rate.

Net earnings in fiscal year 2008 were $217,279, or $1.76 per share, compared with net earnings of $127,497, or $1.02 per share in fiscal year 2007. In summary, net earnings reflect the growth in EBIT, a decrease in net interest expense and a decrease in the effective tax rate. Company management estimates that foreign currency translation increased net earnings by approximately 14 cents per share in the year. In fiscal year 2009, Company management expects earnings per share to be in the range of $2.15 $2.30. This range contemplates an expectation that the acquisition of GeneSystems will be dilutive to earnings by 3 5 cents but does not include items that would be classified as restructuring and other charges, including any In Process Research and Development charge that the Company may record related to the GeneSystems acquisition.

Review of Operating Segments

The following table presents sales and operating profit by segment for the fiscal years ended July 31, 2008 and July 31, 2007.

	2008	% Margin	2007	% Margin	% Change
SALES:					
Life Sciences	$ 975,231		$ 880,187		10.8
Industrial	1,596,414		1,369,718		16.6
Total	$ 2,571,645		$ 2,249,905		14.3
OPERATING PROFIT:					
Life Sciences	$ 197,774	20.3	$ 165,286	18.8	19.7
Industrial	245,855	15.4	204,114	14.9	20.4
Total operating profit	443,629	17.3	369,400	16.4	20.1
General corporate expenses	53,960		44,718		20.7
Earnings before ROTC, interest expense, net and income taxes	389,669	15.2	324,682(a)	14.4	20.0
ROTC	31,538		25,097(a)		
Interest expense, net	32,576		39,056		
Earnings before income taxes	$ 325,555		$ 260,529		

(a) Included in ROTC, for the purposes of evaluation of segment profitability, are other adjustments recorded in cost of sales of $2,745 for the year ended July 31, 2007. Such adjustments include incremental depreciation and other adjustments recorded primarily in

conjunction with the Company s facilities rationalization initiative.

Life Sciences:

Presented below are Summary Statements of Operating Profit for the Life Sciences segment for the fiscal years ended July 31, 2008 and July 31, 2007:

	2008	% of Sales	2007	% of Sales
Sales	$ 975,231		$ 880,187	
Cost of sales	473,298	48.5	432,190	49.1
Gross margin	501,933	51.5	447,997	50.9
SG&A	263,233	27.0	248,851	28.3
R&D	40,926	4.2	33,860	3.8
Operating profit	$ 197,774	20.3	$ 165,286	18.8

The tables below present sales by market and geography within the Life Sciences segment for the fiscal years ended July 31, 2008 and July 31, 2007, including the effect of exchange rates for comparative purposes.

	2008	2007	% Change	Exchange Rate Impact	% Change in Local Currency
By Market					
Medical	$ 491,798	$ 475,369	3.5	$ 20,483	(0.9)
BioPharmaceuticals	483,433	404,818	19.4	35,071	10.8
Total Life Sciences	$ 975,231	$ 880,187	10.8	$ 55,554	4.5
By Geography					
Western Hemisphere	$ 379,591	$ 377,301	0.6	$ 1,432	0.2
Europe	469,450	391,500	19.9	44,905	8.4
Asia	126,190	111,386	13.3	9,217	5.0
Total Life Sciences	$ 975,231	$ 880,187	10.8	$ 55,554	4.5

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Life Sciences segment sales increased 4.5% in fiscal year 2008 compared to fiscal year 2007. Overall, increased pricing in the Medical and BioPharmaceuticals markets contributed 1.8% to sales growth in the year, and as such, the overall volume increase was 2.7%. Life Sciences represented approximately 38% of total sales in fiscal year 2008 compared with 39% in fiscal year 2007.

Within Life Sciences, Medical market sales, which represented approximately one-half of Life Sciences sales, were down 0.9% reflecting a 5.5% decrease in Blood Filtration, the largest market served by Medical. Increases in the BioSciences and Hospital markets of 3.7% and 4.5%, respectively, partly mitigated this impact.

The decrease in the Blood Filtration market primarily relates to decreased volume to several major customers as they have transitioned to alternate suppliers at the natural end of their contractual commitments or as a result of a new tender process. This has been partially offset with a price increase. The increase in the BioSciences market was primarily driven by 2.8% growth in Original Equipment Manufacturer (OEM) sales (contributed by Europe and Asia) and 5.1% growth in Laboratory sales (contributed by all geographies, with Europe the strongest). The increase in OEM sales was largely attributable to drug delivery products in France, as well as new business in Scandinavia. Key growth drivers in the Laboratory market were new product initiatives in life sciences research and laboratory water. The growth in Hospital sales was primarily driven by increased Aquasafe and breathing filter sales in the Western Hemisphere and Asia, specifically in Japan. Company management expects overall Medical sales to increase in the low-single digit range in fiscal year 2009 compared to fiscal year 2008.

BioPharmaceuticals sales increased 10.8%, as systems sales increased about 41% compared to fiscal year 2007, and consumables sales grew 8%. By geography, growth was led by Europe (+15.4%), the Company s largest geographic BioPharmaceuticals market, accompanied by increases in the Western Hemisphere (+3.9%) and Asia (+7.8%). The growth in systems sales primarily reflects investment by the biotechnology sector in the Western Hemisphere and Europe as the Company s Total Fluid Management[sm] strategy presents many opportunities for growth in the BioPharmaceuticals market. The growth in consumables sales was attributable to growth in Europe and Asia of approximately 15% and 5%, respectively, partly offset by a decrease of about 4% in the Western Hemisphere caused by sales downturns and inventory reduction programs in certain large U.S. biotechnology customers. Overall, key products driving growth are the Company s virus removal filters for biotechnology and plasma derived therapeutics, its increasing portfolio of single-use processing technologies including the Kleenpak connector, and its Chromatography portfolio for both systems and consumables. Company management continued to see strong investment in systems and new manufacturing facilities globally. Continuing customer investment in new manufacturing capacity is providing future growth opportunities in consumable sales as these new plants progressively come on stream. For fiscal year 2009, Company management expects double-digit sales growth in the BioPharmaceuticals market compared to fiscal year 2008.

Life Sciences gross margins increased 60 basis points to 51.5% from 50.9% in fiscal year 2007. The improvement in gross margins was principally driven by improved pricing that contributed approximately 80 basis points in margin, a change in market mix within consumables (46% of total Life Sciences consumable sales were in the higher margin BioPharmaceuticals market compared to 43.5% in fiscal year 2007), an improvement in systems margins and savings generated from cost reduction initiatives which dampened estimated inflationary pressures on manufacturing and related overhead costs. These factors were partly offset by a shift in product mix, to a higher percentage of systems sales (about 5.4% of total Life Sciences sales compared to 3.9% in fiscal year 2007) which are generally at lower margins than consumables.

SG&A expenses in fiscal year 2008 increased by $14,382, or about 6% (almost 1% in local currency), compared to fiscal year 2007. SG&A as a percentage of sales decreased to 27% from 28.3% in fiscal year 2007. The decrease in SG&A as a percentage of sales reflects the impact of the Company s cost reduction and efficiency initiatives and the leveraging of growth in sales.

R&D expenses were up about 21% (approximately 19% in local currency) at $40,926 compared to $33,860 in fiscal year 2007. As a percentage of sales, R&D expenses were 4.2% compared to 3.8% in fiscal year 2007. Increased spending reflects investments in both Medical and BioPharmaceuticals projects, including prion and cell harvesting.

As a result of the above factors, operating profit dollars increased about 20% to $197,774 and operating margin improved to 20.3% from 18.8% in fiscal year 2007.

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Industrial:

Presented below are summary Statements of Operating Profit for the Industrial segment for the fiscal years ended July 31, 2008 and July 31, 2007:

	2008	% of Sales	2007	% of Sales
Sales	$ 1,596,414		$ 1,369,718	
Cost of sales	887,512	55.6	755,614	55.2
Gross margin	708,902	44.4	614,104	44.8
SG&A	432,326	27.1	381,436	27.8
R&D	30,721	1.9	28,554	2.1
Operating profit	$ 245,855	15.4	$ 204,114	14.9

The tables below present sales by market and geography within the Industrial segment for the fiscal years ended July 31, 2008 and July 31, 2007, including the effect of exchange rates for comparative purposes.

	2008	2007	% Change	Exchange Rate Impact	% Change in Local Currency
By Market					
Energy, Water & Process Technologies	$ 981,291	$ 821,957	19.4	$ 72,644	10.6
Aerospace & Transportation	306,571	254,675	20.4	14,498	14.7
Microelectronics	308,552	293,086	5.3	16,438	(0.3)
Total Industrial	$ 1,596,414	$ 1,369,718	16.6	$ 103,580	9.0
By Geography					
Western Hemisphere	$ 431,068	$ 398,428	8.2	$ 3,297	7.4
Europe	637,533	536,094	18.9	64,388	6.9
Asia	527,813	435,196	21.3	35,895	13.0
Total Industrial	$ 1,596,414	$ 1,369,718	16.6	$ 103,580	9.0

Industrial segment sales grew 9% in fiscal year 2008, driven by growth in the Energy, Water & Process Technologies and Aerospace & Transportation markets, while sales in the Microelectronics market were down slightly. Overall, increased pricing contributed about 0.5% to the overall sales growth in the year and as such, the overall volume growth was 8.5%.

Industrial systems sales increased 23.9% compared to fiscal year 2007. The Company s Total Fluid Management[sm] strategy presents many opportunities for growth in this regard. All markets in Industrial with the exception of the energy-related market contributed to the growth in systems sales (Municipal Water, Aerospace & Transportation and Food & Beverage markets were the most significant contributors). Industrial consumables sales grew 6.5%, with all markets contributing with the exception of Microelectronics. Industrial represented about 62% of total sales in fiscal year 2008 compared with 61% in fiscal year 2007. Company management expects overall Industrial sales to increase

in the mid-single digit range for all three markets in fiscal year 2009 compared to fiscal year 2008.

Within the Industrial segment, Energy, Water & Process Technologies market sales, which account for about 61% of the Industrial segment, were up 10.6%, with all markets contributing to this gain.

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Municipal Water sales, which are primarily comprised of systems, increased 36.6% compared to fiscal year 2007, generated by strong growth in all geographies. Sales growth in the Western Hemisphere of 24.9% was primarily attributable to increasing numbers of surface water treatment projects driven by government regulations. In Europe, sales growth of 21.8% was driven by surface water treatment in the United Kingdom, sales of leachate treatment systems to developing countries in Eastern Europe and North Africa, and OEM cartridge sales in France and Germany. In Asia, sales increased just over 160% driven by drought-related projects in Australia and sales of leachate treatment systems in various countries in the region.

Sales in the energy-related market increased 7.8% reflecting growth in consumables in all geographies partly offset by a decline in systems sales. The decrease in systems sales reflects a decline in Europe due to particularly strong sales growth last year, partly offset by growth in the Western Hemisphere and Asia. Market opportunities and growth drivers in the energy-related market include alternative energy, including wind and coal gasification.

Food and Beverage sales were up 5.5% reflecting double-digit growth in systems sales (contributed by Europe and Asia) and low-single digit growth in consumables (all geographies contributing). Sales in Europe, the Company s largest geographic Food & Beverage market, were up about 4%. Sales growth in Europe reflects the sale of a water system in Hungary and a large sale to a brewery in Romania to provide for all their filtration needs. In general, key growth drivers in Europe include sales of OenoFlow product to the wine market, Aria systems for process water and expanding sales to the beer market. In Asia, sales increased in the low double-digit range attributable to the overall growth in this region in various countries. In the Western Hemisphere, sales increased in the low-single digit range.

Sales in the Industrial Manufacturing market increased 10% generated by growth in all geographies, with the most significant growth achieved in Asia. Demand in the metal and mining sectors were key growth drivers.

Aerospace & Transportation sales increased 14.7% with all markets contributing to this gain. The growth in Military sales (+15.4%) was primarily driven by strong growth in Asia, where sales increased 72.4% primarily related to a large water systems project with the Australian military. The growth in Military sales in the year also reflects CH-47 helicopter upgrade projects in the Western Hemisphere. The growth in the Commercial portion of this market (+14.5%) primarily reflects strong after-market sales and increased OEM sales generated by an increase in airframe build rates. The increase in the Transportation market (+13.8%) was driven by demand in the construction and mining equipment sectors.

Microelectronics sales decreased slightly as a decline in the Western Hemisphere was partly offset by low single-digit growth in Europe as well as in Asia, the Company s largest geographic Microelectronics market. Overall, the sales decrease in the year reflects tough comparables against the strong growth achieved in fiscal year 2007 and the current cyclical downturn in the semiconductor market, which impacted OEM sales. These factors were partly mitigated by sales growth in the thin film rigid disc, inkjet, solar cell and home server markets.

Industrial gross margins decreased 40 basis points to 44.4% from 44.8% in fiscal year 2007. The decrease in gross margins reflects the impact of a shift in product mix (systems sales were 16.8% of total Industrial sales compared to 14.6% in fiscal year 2007) and market mix within consumables, and incremental costs in Europe related to the facilities rationalization initiative. These negative impacts were partially offset by improved profitability of certain systems sales (some of which is related to standardization of systems and product portfolio rationalization), improved pricing that contributed about 20 basis points in margin and the impact of the Company s manufacturing cost reduction programs, which dampened the estimated inflation of manufacturing costs.

SG&A expenses increased by $50,890, or about 13% (approximately 6% in local currency) compared to fiscal year 2007. The increase in SG&A reflects an increase in selling related costs. SG&A expenses improved to 27.1% as a percentage of sales from 27.8% in fiscal year 2007. The improvement in SG&A as a percentage of sales reflects the impact of cost reduction and efficiency initiatives and the leveraging of growth in sales offset by the impact of increased selling expenses.

R&D expenses were up about 8% (approximately 5% in local currency) at $30,721 compared to $28,554 in fiscal year 2007. As a percentage of sales, R&D expenses were 1.9% compared to 2.1% in fiscal year 2007. Increased spending in dollars reflects investments in new technologies across various markets within Industrial.

As a result of the above factors, operating profit dollars increased about 20% to $245,855 and operating margin was 15.4% compared with 14.9% in fiscal year 2007.

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Corporate:

Corporate expenses increased by $9,242, or about 21% to $53,960 from $44,718 in fiscal year 2007. The increase in Corporate expenses primarily reflects the addition of tax and treasury function personnel and increased professional fees related to tax and audit services.

Results of Operations 2007 Compared with 2006

Review of Consolidated Results

Sales for the fiscal year 2007 increased 11.6% to $2.2 billion from $2 billion in fiscal year 2006. Exchange rates increased reported sales by $71,804, primarily due to the weakening of the U.S. dollar against the Euro, the British Pound and various Asian currencies, partly offset by the strengthening of the U.S. dollar against the Japanese Yen. In local currency (i.e., had exchange rates not changed year over year), sales increased 8%. Increased pricing, primarily in the Life Sciences segment, contributed about 0.5% to overall sales growth in the year.

Life Sciences segment sales increased 7% (in local currency) attributable to growth in both the BioPharmaceuticals and Medical markets. Industrial segment sales increased 8.7% (in local currency) with all markets contributing to the growth. Overall systems sales increased 25.8%, representing 10.4% of total sales in fiscal year 2007 compared to 8.9% in fiscal year 2006, primarily attributable to strong sales in the Energy, Water & Process Technologies market.

Gross margin, as a percentage of sales, was 47.1% in fiscal year 2007 compared to 46.8% in fiscal year 2006. The improvement in gross margin reflects an overall increase in pricing of about 0.5%, driven by both segments which contributed approximately 14 basis points to gross margin, and savings generated from the Company s facilities rationalization initiatives. In fiscal year 2007, the Company completed the outsourcing and closure of plants in Hamburg and Rostock, Germany and a plant in Ternay, France and also announced the closure of a plant in Waldstetten, Germany. Additionally, gross margin has been favorably impacted by the Company s many manufacturing continuous improvement initiatives, including lean initiatives to improve labor productivity (and, therefore, reduce labor cost), and cost reduction initiatives focused on procurement improvements to reduce direct material and freight costs and movement of certain activities to lower cost countries to also reduce labor costs. In addition, initiatives to improve the profitability of systems sales included product rationalization of less profitable systems. These factors are partly offset by the impact of the significant growth in systems sales, which typically have lower margins than consumables, and incremental costs related to the facilities rationalization initiative that include incremental depreciation (on assets to be retired earlier than originally estimated) and training.

SG&A expenses in fiscal year 2007 increased by $33,975, or about 5% (approximately 2% in local currency). As a percentage of sales, SG&A expenses decreased to 30% from 31.8% in fiscal year 2006 reflecting cost controls combined with increasing sales. The Company continued a major initiative, begun in fiscal year 2006, to optimize its European operations (EuroPall) with the objective of delivering improvements in profitability, with much of the benefit showing through in fiscal year 2007. In fiscal year 2007, the Company launched the equivalent of this program in the Western Hemisphere (AmeriPall). The objectives of these initiatives are to revamp the Company s shared service and corporate infrastructure to create more efficient operations at a reduced cost.

R&D expenses were $62,414 in fiscal year 2007 compared to $57,371 in fiscal year 2006, up just under 9% year over year (approximately 7% in local currency). As a percentage of sales, R&D expenses were 2.8%, on par with fiscal year 2006.

In fiscal year 2007, the Company recorded ROTC of $22,352, primarily related to the Company s on-going cost reduction initiatives (including its facilities rationalization, EuroPall and AmeriPall initiatives). The ROTC recorded in fiscal year 2007 was primarily comprised of severance, impairment charges related to the planned disposal of buildings and early retirement of certain long-lived assets, and other costs in connection with such initiatives. Additionally, the charges in fiscal year 2007 include an increase to previously established environmental reserves. Such charges were partly offset by the gain on the sale of the Company s corporate headquarters, an insurance settlement related to an environmental matter, and the reversal of excess restructuring reserves recorded in the accompanying consolidated statement of earnings for fiscal year 2006.

In fiscal year 2006, the Company recorded ROTC of $12,326, primarily comprised of severance and other costs in connection with the Company s divisional realignment and on-going cost reduction initiatives (including its facilities rationalization and EuroPall initiatives), partly offset by the reversal of excess restructuring reserves recorded in fiscal

year 2005. In addition, the charges include an increase to previously established environmental reserves. ROTC also includes a gain on the sale of the Company s stock rights in Satair A/S (Satair), which was recorded in the second quarter, as well as a gain on the sale of the Company s investment in Panacos Pharmaceuticals, Inc., formerly known as V.I. Technologies, Inc. (VITEX), that was recorded in the first quarter.

The details of ROTC for the years ended July 31, 2007 and July 31, 2006 can be found in Note 2, Restructuring and Other Charges, Net, to the accompanying consolidated financial statements.

EBIT in fiscal year 2007 increased about 28% to $299,585 from $233,353 in fiscal year 2006. The increase in EBIT reflects the factors discussed above.

Net interest expense in fiscal year 2007 increased to $39,056 from $30,123 in fiscal year 2006. The comparison of net interest expense compared to fiscal year 2006 reflects an increase in interest expense of approximately $14,600 related to the tax matter (for discussion of tax matter see Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K). The impact of a reduction in average net debt levels as compared to fiscal year 2006 and a slight decrease in interest rates, due to the movement of debt to lower interest rate countries in the fourth quarter of fiscal year 2006, partly offset the above.

In fiscal year 2007, the Company s effective tax rate was 51.1% as compared to 74.3% in fiscal year 2006. The decrease in the effective tax rate was primarily due to an incremental provision for income taxes in fiscal year 2006 related to $398,000 of foreign earnings intended to qualify for repatriation under the Homeland Investment Act and unpaid intercompany balances that resulted from sales of products by a foreign subsidiary of the Company to a U.S. subsidiary of the Company that gave rise to deemed dividend income (see Note 2, Audit Committee Inquiry and Restatement, to the consolidated financial statements included in the 2007 Form 10-K for further details). These decreases were partially offset by a charge taken in fiscal year 2007 for the net tax cost of the anticipated repatriation of approximately $160,000 of foreign earnings which had previously been asserted to be indefinitely reinvested (see Note 10, Income Taxes, to the accompanying consolidated financial statements for further details) and a change in estimate in fiscal year 2007 of the amount of profit the Company expects to derive in Puerto Rico in light of the repeal of benefits previously realized by the Company under Section 936 of the Internal Revenue Code and attendant revisions by the IRS of audit practices. See Note 10, Income Taxes, to the accompanying consolidated financial statements for further details on the components of the Company s effective tax rate.

Net earnings in fiscal year 2007 were $127,497, or $1.02 per share, compared with net earnings of $52,140, or 41 cents per share in fiscal year 2006. In summary, the increase in net earnings reflects the increase in EBIT and a decrease in income taxes as discussed above. These factors were partly offset by an increase in net interest expense as discussed above. Company management estimates that foreign currency translation increased net earnings by approximately 4 cents per share.

Review of Operating Segments

The following table presents sales and operating profit by segment for the fiscal years ended July 31, 2007 and July 31, 2006.

	2007	% Margin	2006	% Margin	% Change
SALES:					
Life Sciences	$ 880,187		$ 796,305		10.5
Industrial	1,369,718		1,220,525		12.2
Total	$ 2,249,905		$ 2,016,830		11.6
OPERATING PROFIT :					
Life Sciences	$ 165,286	18.8	$ 138,439	17.4	19.4
Industrial	204,114	14.9	150,596	12.3	35.5
Total operating profit	369,400	16.4	289,035	14.3	27.8
General corporate expenses	44,718		41,689		7.3
Earnings before ROTC, interest expense, net and income taxes (a)	324,682	14.4	247,346	12.3	31.3

ROTC (a)	25,097	13,993
Interest expense, net	39,056	30,123
Earnings before income taxes	$ 260,529	$ 203,230

(a) Included in ROTC, for the purposes of evaluation of segment profitability, are other adjustments recorded in cost of sales of $2,745 and $1,667 for the year ended July 31, 2007 and July 31, 2006, respectively. Such adjustments include incremental depreciation and other adjustments recorded primarily in conjunction with the Company s facilities rationalization initiative.

Life Sciences:

Presented below are Summary Statements of Operating Profit for the Life Sciences segment for the fiscal years ended July 31, 2007 and July 31, 2006:

	2007	% of Sales	2006	% of Sales
Sales	$ 880,187		$ 796,305	
Cost of sales	432,190	49.1	401,224	50.4
Gross margin	447,997	50.9	395,081	49.6
SG&A	248,851	28.3	225,054	28.3
R&D	33,860	3.8	31,588	4.0
Operating profit	$ 165,286	18.8	$ 138,439	17.4

The tables below present sales by market and geography within the Life Sciences segment for the fiscal years ended July 31, 2007 and July 31, 2006, including the effect of exchange rates for comparative purposes.

	2007	2006	% Change	Exchange Rate Impact	% Change in Local Currency
By Market					
Medical	$ 475,369	$ 444,033	7.1	$ 12,900	4.2
BioPharmaceuticals	404,818	352,272	14.9	15,466	10.5
Total Life Sciences	$ 880,187	$ 796,305	10.5	$ 28,366	7.0
By Geography					
Western Hemisphere	$ 377,301	$ 352,027	7.2	$ 243	7.1
Europe	391,500	335,089	16.8	26,593	8.9
Asia	111,386	109,189	2.0	1,530	0.6
Total Life Sciences	$ 880,187	$ 796,305	10.5	$ 28,366	7.0

Life Sciences segment sales increased 7% in fiscal year 2007 compared to fiscal year 2006. Overall, increased pricing, related to the BioPharmaceuticals market, contributed about 0.5% to sales growth year over year. Life Sciences represented approximately 39% of total sales in fiscal year 2007 on par with fiscal year 2006.

Within Life Sciences, Medical market sales, which represented approximately one-half of Life Sciences sales, increased 4.2%, driven by growth in the Blood Filtration, Hospital and BioSciences markets. The increase in Blood Filtration sales was driven by the Western Hemisphere, reflecting vented whole blood filter and Acrodose product sales to independent blood centers in the United States, as well as increased sales in Canada, and by Europe, primarily reflecting increased sales to the U.K. blood markets. This increase was partly offset by decreased blood draws in Japan, as they transition from bedside filtration to blood centers. The growth in the Hospital market primarily reflects high demand for critical care products in Europe. The increase in the BioSciences market was driven by growth in Laboratory sales in all geographies as well as growth in Cell Therapy sales in the Western Hemisphere and Europe.

BioPharmaceuticals sales increased 10.5%, driven by growth in consumables in all geographies and in systems sales in the Western Hemisphere, somewhat offset by a decline in systems sales in Europe and Asia. The growth in consumables (+10%) was driven by the vaccine and large-scale biotechnology sectors, particularly capsules and single-use processing technologies. The growth in systems sales in the Western Hemisphere reflects the continuing investment by the biotechnology and vaccine sectors. Systems sales in Europe and Asia were down reflecting the timing of major projects.

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Life Sciences gross margins increased to 50.9% in fiscal year 2007 from 49.6% in fiscal year 2006. The improvement in gross margins was principally driven by savings generated from cost reduction initiatives, primarily the benefits of reduced labor costs from plant automation and utilization of labor in lower cost countries (primarily reflecting the significant movement of blood-bank related manufacturing operations to Mexico), as well as procurement initiatives, quality initiatives aimed at reducing scrap levels, and increased pricing which contributed approximately 18 basis points to gross margin. Furthermore, gross margins also benefited from a change in product mix, as a larger percentage of sales in fiscal year 2007 were in the higher margin BioPharmaceuticals market (comprising 46% of total Life Sciences sales compared to 44% in fiscal year 2006).

SG&A expenses in fiscal year 2007 increased by $23,797, or about 11%. SG&A expenses were 28.3% as a percentage of sales, on par with fiscal year 2006.

R&D expenses were up about 7% year over year; coming in at $33,860 in fiscal year 2007 compared to $31,588 in fiscal year 2006. As a percentage of sales, R&D expenses were 3.8% compared to 4% in fiscal year 2006.

As a result of the above factors, operating profit dollars increased approximately 19% to $165,286 in fiscal year 2007 compared to $138,439 in fiscal year 2006 and operating margin improved to 18.8% from 17.4%.

Industrial:

Presented below are summary Statements of Operating Profit for the Industrial segment for the fiscal years ended July 31, 2007 and July 31, 2006:

	2007	% of Sales	2006	% of Sales
Sales	$ 1,369,718		$ 1,220,525	
Cost of sales	755,614	55.2	669,859	54.9
Gross margin	614,104	44.8	550,666	45.1
SG&A	381,436	27.8	374,287	30.7
R&D	28,554	2.1	25,783	2.1
Operating profit	$ 204,114	14.9	$ 150,596	12.3

The tables below present sales by market and geography within the Industrial segment for the fiscal years ended July 31, 2007 and July 31, 2006, including the effect of exchange rates for comparative purposes.

	2007	2006	% Change	Exchange Rate Impact	% Change in Local Currency
By Market					
Energy, Water & Process Technologies	$ 821,957	$ 719,605	14.2	$ 31,605	9.8
Aerospace & Transportation	254,675	242,624	5.0	8,453	1.5
Microelectronics	293,086	258,296	13.5	3,380	