

PALL CORP
Form 10-Q
June 02, 2014

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

FORM 10-Q

R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2014

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
(State or other jurisdiction of
incorporation or organization)

11-1541330
(I.R.S. Employer
Identification No.)

25 Harbor Park Drive, Port Washington, NY
(Address of principal executive offices)

11050
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

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

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

The number of shares of the registrant's common stock outstanding as of May 27, 2014 was 109,681,236.

Table of Contents

| | Page No. |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> <u>Financial Statements (Unaudited).</u> | |
| <u>Condensed Consolidated Balance Sheets as of April 30, 2014 and July 31, 2013.</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Earnings for the three and nine months ended April 30, 2014 and April 30, 2013.</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended April 30, 2014 and April 30, 2013.</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended April 30, 2014 and April 30, 2013.</u> | <u>6</u> |
| <u>Notes to Condensed Consolidated Financial Statements.</u> | <u>7</u> |
| <u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u> | <u>27</u> |
| <u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk.</u> | <u>42</u> |
| <u>Item 4.</u> <u>Controls and Procedures.</u> | <u>42</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1.</u> <u>Legal Proceedings.</u> | <u>43</u> |
| <u>Item 1A.</u> <u>Risk Factors.</u> | <u>43</u> |
| <u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | <u>44</u> |
| <u>Item 6.</u> <u>Exhibits.</u> | <u>44</u> |
| <u>SIGNATURES</u> | |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

| | Apr 30, 2014 | Jul 31, 2013 |
|---|--------------|--------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$870,874 | \$936,886 |
| Accounts receivable | 564,782 | 566,335 |
| Inventory | 428,648 | 381,047 |
| Prepaid expenses | 80,676 | 72,808 |
| Other current assets | 82,368 | 92,953 |
| Total current assets | 2,027,348 | 2,050,029 |
| Property, plant and equipment | 799,197 | 774,948 |
| Goodwill | 445,030 | 342,492 |
| Intangible assets | 211,586 | 137,243 |
| Other non-current assets | 163,104 | 168,127 |
| Total assets | \$3,646,265 | \$3,472,839 |
| Liabilities and Stockholders' Equity: | | |
| Current liabilities: | | |
| Notes payable | \$304,959 | \$169,967 |
| Accounts payable | 160,049 | 157,176 |
| Accrued liabilities | 307,930 | 312,829 |
| Income taxes payable | 57,009 | 60,732 |
| Current portion of long-term debt | 406 | 420 |
| Dividends payable | 30,159 | 27,947 |
| Total current liabilities | 860,512 | 729,071 |
| Long-term debt, net of current portion | 463,666 | 467,319 |
| Income taxes payable – non-current | 135,366 | 141,843 |
| Deferred taxes and other non-current liabilities | 365,551 | 319,650 |
| Total liabilities | 1,825,095 | 1,657,883 |
| Stockholders' equity: | | |
| Common stock, par value \$.10 per share | 12,796 | 12,796 |
| Capital in excess of par value | 324,025 | 298,150 |
| Retained earnings | 2,424,552 | 2,285,031 |
| Treasury stock, at cost | (950,506) | (740,229) |
| Accumulated other comprehensive income/(loss): | | |
| Foreign currency translation | 130,928 | 84,598 |
| Pension liability adjustment | (125,257) | (125,211) |
| Unrealized investment gains | 1,525 | 2,123 |
| Unrealized gains/(losses) on derivatives | 3,107 | (2,302) |
| Total accumulated other comprehensive income/(loss) | 10,303 | (40,792) |

| | | |
|--|-------------|-------------|
| Total stockholders' equity | 1,821,170 | 1,814,956 |
| Total liabilities and stockholders' equity | \$3,646,265 | \$3,472,839 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Net sales | \$682,445 | \$641,190 | \$1,989,193 | \$1,931,245 |
| Cost of sales | 334,371 | 307,111 | 971,146 | 928,120 |
| Gross profit | 348,074 | 334,079 | 1,018,047 | 1,003,125 |
| Selling, general and administrative expenses | 201,045 | 199,595 | 592,228 | 601,569 |
| Research and development | 26,644 | 22,608 | 74,890 | 68,582 |
| Restructuring and other charges, net | 11,542 | 12,824 | 29,910 | 21,497 |
| Interest expense, net | 4,747 | 5,298 | 15,919 | 10,747 |
| Earnings from continuing operations before income taxes | 104,096 | 93,754 | 305,100 | 300,730 |
| Provision for income taxes | 15,405 | 19,483 | 61,230 | 56,975 |
| Net earnings from continuing operations | \$88,691 | \$74,271 | \$243,870 | \$243,755 |
| Earnings/(loss) from discontinued operations, net of income taxes | \$— | \$(1,206) |) \$— | \$245,552 |
| Net earnings | \$88,691 | \$73,065 | \$243,870 | \$489,307 |
| Earnings per share from continuing operations: | | | | |
| Basic | \$0.80 | \$0.66 | \$2.20 | \$2.16 |
| Diluted | \$0.80 | \$0.65 | \$2.17 | \$2.13 |
| Earnings/(loss) per share from discontinued operations: | | | | |
| Basic | \$— | \$(0.01) |) \$— | \$2.17 |
| Diluted | \$— | \$(0.01) |) \$— | \$2.15 |
| Earnings per share: | | | | |
| Basic | \$0.80 | \$0.65 | \$2.20 | \$4.33 |
| Diluted | \$0.80 | \$0.64 | \$2.17 | \$4.28 |
| Dividends declared per share | \$0.550 | \$0.250 | \$0.825 | \$0.750 |
| Average shares outstanding: | | | | |
| Basic | 110,183 | 111,964 | 110,946 | 112,979 |
| Diluted | 111,466 | 113,311 | 112,215 | 114,415 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Net earnings | \$88,691 | \$73,065 | \$243,870 | \$489,307 |
| Other comprehensive income/(loss), net of income taxes: | | | | |
| Foreign currency translation | 25,041 | (33,127) | 46,330 | 8,195 |
| Pension liability adjustment | 619 | 4,199 | (46) | 8,762 |
| Unrealized investment gains/(losses) | (224) | (208) | (598) | (145) |
| Unrealized gains/(losses) on derivatives | (172) | 1,548 | 5,409 | (2,229) |
| Total other comprehensive income/(loss), net of income taxes | 25,264 | (27,588) | 51,095 | 14,583 |
| Comprehensive income | \$113,955 | \$45,477 | \$294,965 | \$503,890 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Nine Months Ended | |
|--|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Operating activities: | | |
| Net cash provided by operating activities | \$342,164 | \$206,890 |
| Investing activities: | | |
| Capital expenditures | (50,301 |) (66,387 |
| Acquisition of businesses, net of cash acquired | (195,262 |) — |
| Purchases of retirement benefit assets | (29,518 |) (33,503 |
| Proceeds from retirement benefit assets | 36,020 | 36,689 |
| Proceeds from sale of assets | 5,618 | 537,284 |
| Other | (9,167 |) (3,862 |
| Net cash provided/(used) by investing activities | (242,610 |) 470,221 |
| Financing activities: | | |
| Notes payable | 134,992 | 10,020 |
| Dividends paid | (88,596 |) (80,197 |
| Long-term borrowings | — | 14 |
| Repayments of short-term debt | (3,927 |) — |
| Repayments of long-term debt | (545 |) (352 |
| Net proceeds from stock plans | 13,814 | 31,054 |
| Additions to deferred financing costs | — | (3,043 |
| Purchase of treasury stock | (250,000 |) (250,000 |
| Excess tax benefits from stock-based compensation arrangements | 11,327 | 11,774 |
| Net cash used by financing activities | (182,935 |) (280,730 |
| Cash flow for period | (83,381 |) 396,381 |
| Cash and cash equivalents at beginning of year | 936,886 | 500,274 |
| Effect of exchange rate changes on cash and cash equivalents | 17,369 | 7,312 |
| Cash and cash equivalents at end of period | \$870,874 | \$903,967 |
| Supplemental disclosures: | | |
| Interest paid | \$13,068 | \$23,780 |
| Income taxes paid (net of refunds) | 44,782 | 133,417 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 – BASIS OF PRESENTATION

The condensed consolidated financial information of Pall Corporation and its subsidiaries (hereinafter collectively called the “Company”) included herein is unaudited. Such information reflects all adjustments of a normal recurring nature, which are, in the opinion of Company management, necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows as of the dates and for the periods presented herein. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2013 (“2013 Form 10-K”).

As discussed in Note 16, Discontinued Operations, on August 1, 2012, the Company sold certain assets of its blood collection, filtration and processing product line, which was a component of the Company’s Life Sciences segment, and met the criteria for discontinued operations and held for sale presentation during the third quarter of fiscal year 2012. As such, it has been reported as a discontinued operation in the Company’s condensed consolidated financial statements for all periods presented.

NOTE 2 – BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

| | Apr 30, 2014 | Jul 31, 2013 |
|--|--------------|--------------|
| Accounts receivable: | | |
| Billed | \$513,137 | \$508,448 |
| Unbilled | 65,661 | 72,787 |
| Total | 578,798 | 581,235 |
| Less: Allowances for doubtful accounts | (14,016) | (14,900) |
| | \$564,782 | \$566,335 |

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

| | Apr 30, 2014 | Jul 31, 2013 |
|---|--------------|---------------|
| Inventory: | | |
| Raw materials and components | \$124,837 | \$94,837 |
| Work-in-process | 109,028 | 94,998 |
| Finished goods | 194,783 | 191,212 |
| | \$428,648 | \$381,047 |
| | Apr 30, 2014 | July 31, 2013 |
| Property, plant and equipment: | | |
| Property, plant and equipment | \$1,757,331 | \$1,650,274 |
| Less: Accumulated depreciation and amortization | (958,134) | (875,326) |
| | \$799,197 | \$774,948 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 3 – GOODWILL AND INTANGIBLE ASSETS

The Company completed its annual goodwill impairment test for all reporting units in the third quarter of fiscal year 2014 and determined that no impairment existed. In addition, the Company had no impairment of goodwill in the prior year. In connection with the annual goodwill impairment test, the Company estimates the fair value of its reporting units using a market approach employing Level 3 inputs as defined in the fair value hierarchy described in Note 11, Fair Value Measurements.

The following table presents changes in the carrying value of goodwill, allocated by reportable segment.

| | Life Sciences | Industrial | Total |
|------------------------------|---------------|------------|------------|
| Balance as of July 31, 2013 | \$ 180,896 | \$ 161,596 | \$ 342,492 |
| Acquisitions | 99,744 | — | 99,744 |
| Foreign currency translation | 1,818 | 976 | 2,794 |
| Balance as of April 30, 2014 | \$ 282,458 | \$ 162,572 | \$ 445,030 |

In connection with the acquisitions in the first nine months of fiscal year 2014, see Note 17, Acquisitions, the Company recorded the fair value of the intangible assets acquired, which were valued using the income approach. The valuation employed level 3 inputs, as defined in the fair value hierarchy.

Intangible assets consist of the following:

| | Apr 30, 2014 | | |
|-----------------------------------|--------------|--------------------------|------------|
| | Gross | Accumulated Amortization | Net |
| Patents and unpatented technology | \$ 166,112 | \$ 64,522 | \$ 101,590 |
| Customer-related intangibles | 129,777 | 30,480 | 99,297 |
| Trademarks | 16,412 | 6,835 | 9,577 |
| Other | 3,674 | 2,552 | 1,122 |
| | \$ 315,975 | \$ 104,389 | \$ 211,586 |
| | Jul 31, 2013 | | |
| | Gross | Accumulated Amortization | Net |
| Patents and unpatented technology | \$ 123,707 | \$ 69,992 | \$ 53,715 |
| Customer-related intangibles | 97,016 | 22,425 | 74,591 |
| Trademarks | 13,291 | 6,166 | 7,125 |
| Other | 4,425 | 2,613 | 1,812 |
| | \$ 238,439 | \$ 101,196 | \$ 137,243 |

Amortization expense from continuing operations for intangible assets for the three and nine months ended April 30, 2014 was \$5,399 and \$14,778, respectively. Amortization expense from continuing operations for intangible assets for the three and nine months ended April 30, 2013 was \$4,765 and \$14,900, respectively. Amortization expense is estimated to be approximately \$5,699 for the remainder of fiscal year 2014, \$21,202 in fiscal year 2015, \$19,920 in fiscal year 2016, \$19,841 in fiscal year 2017, \$19,670 in fiscal year 2018, and \$17,316 in fiscal year 2019.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 4 – TREASURY STOCK

The following table highlights the share repurchase authorizations in effect during fiscal year 2014:

| | Date of Authorization | | |
|---|-----------------------|--------------|------------|
| | Sep 26, 2011 | Jan 17, 2013 | Total |
| Amount available for repurchases as of July 31, 2013 | \$81,873 | \$250,000 | \$331,873 |
| New authorizations | — | — | — |
| Utilized | (81,873) | (168,127) | (250,000) |
| Amount available for repurchases as of April 30, 2014 | \$— | \$81,873 | \$81,873 |

The Company's shares may be purchased over time as market and business conditions warrant. There is no time restriction on these authorizations. In September 2013, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with a third-party financial institution to repurchase \$125,000 of the Company's common stock. This transaction was completed in the second quarter of fiscal year 2014. Under the agreement, the Company paid \$125,000 to the financial institution. Upon completion of the transaction, the Company received a total of 1,573 shares with an average price per share of \$79.45.

In December 2013, the Company entered into a second ASR agreement with a third-party financial institution to repurchase \$125,000 of the Company's common stock. This transaction was completed in the third quarter of fiscal year 2014. Under the agreement, the Company paid \$125,000 to the financial institution. Upon completion of the transaction, the Company received a total of 1,483 shares with an average price per share of \$84.31.

During the nine months ended April 30, 2014, 935 shares were issued under the Company's stock-based compensation plans. At April 30, 2014, the Company held 18,291 treasury shares.

NOTE 5 – CONTINGENCIES AND COMMITMENTS

With respect to the matters described in Note 14, Contingencies and Commitments, to the Company's consolidated financial statements included in the Company's 2013 Form 10-K and below, the Company has assessed the ultimate resolution of these matters and has reflected appropriate contingent liabilities in the condensed consolidated financial statements as of April 30, 2014 and July 31, 2013.

The Company and its subsidiaries are subject to certain other legal actions that arise in the normal course of business. Other than those legal proceedings and claims discussed in the 2013 Form 10-K and this Note, the Company is not facing any other legal proceedings and claims that would individually or in the aggregate have a reasonably possible material adverse effect on its financial condition or operating results. As such, any reasonably possible loss or range of loss, other than those legal proceedings discussed in the 2013 Form 10-K and this Note, is immaterial. However, the results of legal proceedings cannot be predicted with certainty. If the Company failed to prevail in several of these legal matters in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

Environmental Matters:

With respect to the environmental matters at the Company's Pinellas Park, Florida site, previously disclosed in Note 14, Contingencies and Commitments, to the Company's consolidated financial statements included in the Company's 2013 Form 10-K, the Florida Department of Environmental Protection approved the remedial action plan in September 2013. As a result of this, the Company added \$4,440 to its environmental reserves in the first quarter of fiscal year 2014.

The Company's condensed consolidated balance sheet at April 30, 2014 includes liabilities for environmental matters of approximately \$20,738 which relate primarily to the environmental proceedings discussed in the 2013 Form 10-K and as updated in this Note. In the opinion of management, the Company is in substantial compliance with applicable environmental laws and its current accruals for environmental remediation are adequate. However, as regulatory standards under environmental laws are becoming increasingly stringent, there can be no assurance that future

developments, additional information and experience gained will not cause the Company to incur material environmental liabilities or costs beyond those accrued in its condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 6 – RESTRUCTURING AND OTHER CHARGES, NET

The following tables summarize the restructuring and other charges (“ROTC”) recorded in the three and nine months ended April 30, 2014 and April 30, 2013:

| | Three Months Ended Apr 30, 2014 | | | Nine Months Ended Apr 30, 2014 | | |
|---|---------------------------------|-------------------------------------|----------|--------------------------------|-------------------------------------|----------|
| | Restructuring (1) | Other (Gains)/ Charges (2) | Total | Restructuring (1) | Other (Gains)/ Charges (2) | Total |
| Severance benefits and other employment contract obligations | \$8,289 | \$— | \$8,289 | \$18,751 | \$(402) | \$18,349 |
| Professional fees and other costs, net of receipt of insurance claim payments | 567 | 1,498 | 2,065 | 2,704 | 3,693 | 6,397 |
| (Gain)/loss on sale and impairment of assets, net | 3,986 | (1,640) | 2,346 | 3,986 | (1,480) | 2,506 |
| Environmental matters | — | — | — | — | 4,440 | 4,440 |
| Reversal of excess restructuring reserves | (1,158) | — | (1,158) | (1,782) | — | (1,782) |
| | \$11,684 | \$(142) | \$11,542 | \$23,659 | \$6,251 | \$29,910 |
| Cash | \$7,698 | \$(142) | \$7,556 | \$19,673 | \$6,091 | \$25,764 |
| Non-cash | 3,986 | — | 3,986 | 3,986 | 160 | 4,146 |
| | \$11,684 | \$(142) | \$11,542 | \$23,659 | \$6,251 | \$29,910 |
| | Three Months Ended Apr 30, 2013 | | | Nine Months Ended Apr 30, 2013 | | |
| | Restructuring (1) | Other (Gains)/ Charges (2) | Total | Restructuring (1) | Other (Gains)/ Charges (2) | Total |
| Severance benefits and other employment contract obligations | \$5,701 | \$1,452 | \$7,153 | \$10,896 | \$2,903 | \$13,799 |
| Professional fees and other costs, net of receipt of insurance claim payments | 361 | 531 | 892 | 1,149 | 2,117 | 3,266 |
| (Gain)/loss on sale and impairment of assets, net | 999 | 1,357 | 2,356 | 993 | 1,357 | 2,350 |
| Environmental matters | — | 2,715 | 2,715 | — | 2,715 | 2,715 |
| Reversal of excess restructuring reserves | (292) | — | (292) | (633) | — | (633) |
| | \$6,769 | \$6,055 | \$12,824 | \$12,405 | \$9,092 | \$21,497 |
| Cash | \$5,770 | \$4,185 | \$9,955 | \$11,007 | \$6,709 | \$17,716 |
| Non-cash | 999 | 1,870 | 2,869 | 1,398 | 2,383 | 3,781 |
| | \$6,769 | \$6,055 | \$12,824 | \$12,405 | \$9,092 | \$21,497 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

(1) Restructuring:

In fiscal year 2012, the Company announced a multi-year strategic cost reduction initiative (“structural cost improvement initiative”). This initiative impacts both segments as well as the Corporate Services Group. The goal of this initiative is to properly position the Company’s cost structure globally to perform in the current economic environment without adversely impacting its growth or innovation potential.

Key components of the structural cost improvement initiative include:

• the strategic alignment of manufacturing, sales and R&D facilities to cost-effectively deliver high-quality products and superior service to the Company’s customers worldwide,

• creation of regional shared financial services centers for the handling of accounting transaction processing and other accounting functions,

• reorganization of sales functions, to more cost-efficiently deliver superior service to the Company’s customers globally, and

• reductions in headcount across all functional areas, enabled by efficiencies gained through the Company’s ERP systems, as well as in order to align to economic conditions.

Restructuring charges recorded in the three and nine months ended April 30, 2014 and April 30, 2013 primarily reflect the expenses incurred in connection with the Company’s structural cost improvement initiative as discussed above.

Restructuring charges in the three and nine months ended April 30, 2014 also includes the impairment of assets of \$3,986 related to the discontinuance of a specific manufacturing line due to excess capacity as a result of recent acquisitions.

(2) Other (Gains)/Charges:

Severance benefits and other employment contract obligations: In the three and nine months ended April 30, 2013, the Company recorded charges related to certain employment contract obligations.

Professional fees and other: In the three months ended April 30, 2014, the Company recorded costs related to the settlement of a legal matter. Furthermore, in the three and nine months ended April 30, 2014, the Company recorded acquisition related legal and other professional fees. In the three and nine months ended April 30, 2013, the Company recorded settlement related costs as well as legal and other professional fees, related to the Federal Securities Class Actions, Shareholder Derivative Lawsuits and Other Proceedings (see Note 14, Contingencies and Commitments, in the 2013 Form 10-K).

Gain on sale and impairment of assets: In the three months ended April 30, 2014, the Company recorded a gain on the sale of a building in Europe. In the three months ended April 30, 2013, the Company recorded an impairment related to a software project.

Environmental matters: As discussed in Note 5, Contingencies and Commitments, in the nine months ended April 30, 2014, the Company increased its previously established environmental reserve related to a matter in Pinellas Park, Florida. In the three months ended April 30, 2013, the Company increased its previously established environmental reserve related to a matter in Glen Cove, New York.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The following table summarizes the activity related to restructuring liabilities recorded for the Company's structural cost improvement initiative which began in fiscal year 2012:

| | Severance | Other | Total |
|-----------------------------|-----------|---------|----------|
| Original charge | \$61,852 | \$3,448 | \$65,300 |
| Utilized | (27,365) | (2,798) | (30,163) |
| Translation | (123) | (47) | (170) |
| Balance at Jul 31, 2012 | \$34,364 | \$603 | \$34,967 |
| Additions | 21,637 | 2,840 | 24,477 |
| Utilized | (29,574) | (1,936) | (31,510) |
| Reversal of excess reserves | (500) | (57) | (557) |
| Translation | 313 | 23 | 336 |
| Balance at Jul 31, 2013 | \$26,240 | \$1,473 | \$27,713 |
| Additions | 18,751 | 2,704 | 21,455 |
| Utilized | (18,996) | (2,533) | (21,529) |
| Reversal of excess reserves | (1,682) | (100) | (1,782) |
| Translation | 628 | 63 | 691 |
| Balance at Apr 30, 2014 | \$24,941 | \$1,607 | \$26,548 |

Excluded from the table above are restructuring liabilities relating to restructuring plans initiated in fiscal year 2010. At April 30, 2014, the balance of these liabilities was \$213.

NOTE 7 – INCOME TAXES

The Company's effective tax rates on continuing operations for the nine months ended April 30, 2014 and April 30, 2013 were 20.1% and 18.9%, respectively. For the nine months ended April 30, 2014, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations and a net tax benefit of \$10,054 from the resolution of tax audits. For the nine months ended April 30, 2013, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations and a net tax benefit of \$7,757 primarily from the resolution of a U.S. tax audit partly offset by the establishment of deferred tax liabilities for the repatriation of foreign earnings.

During the nine months ended April 30, 2014, the Company reached a final settlement with Her Majesty's Revenue and Customs ("HMRC") in the United Kingdom resolving the outstanding tax positions for fiscal years ended July 2010 and July 2011. As a result, the Company reversed \$10,961 of previously recorded liabilities related to tax and penalties, as well as \$1,478 related to interest (\$1,138 net of income tax cost) that were accrued but not assessed as part of the settlement.

During the nine months ended April 30, 2013, the Company reached a final agreement with the Internal Revenue Service ("IRS") resolving the outstanding tax positions for fiscal years ended 2006 through 2008. As a result, the Company reversed \$10,193 of previously recorded liabilities related to tax and penalties, as well as \$6,704 related to interest (\$4,268 net of income tax cost) that were accrued but not assessed as part of the IRS agreement.

At April 30, 2014 and July 31, 2013, the Company had gross unrecognized income tax benefits of \$198,899 and \$203,376, respectively. During the nine months ended April 30, 2014, the amount of gross unrecognized tax benefits decreased by \$4,477, primarily due to the settlement with HMRC for fiscal years ended July 2010 and July 2011 and the expiration of various foreign statutes of limitation, partially offset by tax positions taken during the current period and the impact of foreign currency translation. As of April 30, 2014, the amount of net unrecognized income tax benefits that, if recognized, would impact the effective tax rate was \$155,469.

At April 30, 2014 and July 31, 2013, the Company had liabilities of \$17,450 and \$18,622, respectively, for potential payment of interest and penalties.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

Due to the potential resolution of tax examinations and the expiration of various statutes of limitation, the Company believes that it is reasonably possible that the gross amount of unrecognized tax benefits may decrease within the next twelve months by a range of zero to \$55,781.

Subsequent to the balance sheet date, the Company received official notification of the resolution of a tax audit in Germany related to fiscal years 2005 through 2008. This will result in the recognition of previously unrecognized income tax benefits of approximately \$7,000 and a reversal of interest of approximately \$3,000 in the Company's fourth fiscal quarter ending July 31, 2014.

NOTE 8 – COMPONENTS OF NET PERIODIC PENSION COST

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

| | Three Months Ended | | | | | |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | U.S. Plans | | Foreign Plans | | Total | |
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Service cost | \$2,169 | \$2,648 | \$1,005 | \$1,093 | \$3,174 | \$3,741 |
| Interest cost | 3,028 | 2,617 | 4,398 | 3,899 | 7,426 | 6,516 |
| Expected return on plan assets | (2,325) | (2,383) | (3,611) | (3,937) | (5,936) | (6,320) |
| Amortization of prior service cost/(credit) | 395 | 392 | (10) | (12) | 385 | 380 |
| Amortization of actuarial loss | 1,344 | 2,411 | 1,450 | 1,358 | 2,794 | 3,769 |
| Loss due to curtailments and settlements | — | 16 | — | — | — | 16 |
| Net periodic benefit cost | \$4,611 | \$5,701 | \$3,232 | \$2,401 | \$7,843 | \$8,102 |
| | Nine Months Ended | | | | | |
| | U.S. Plans | | Foreign Plans | | Total | |
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Service cost | \$6,509 | \$7,943 | \$2,998 | \$3,443 | \$9,507 | \$11,386 |
| Interest cost | 9,083 | 7,852 | 12,923 | 11,965 | 22,006 | 19,817 |
| Expected return on plan assets | (6,974) | (7,150) | (10,591) | (12,158) | (17,565) | (19,308) |
| Amortization of prior service cost/(credit) | 1,185 | 1,178 | (31) | (44) | 1,154 | 1,134 |
| Amortization of actuarial loss | 4,033 | 7,233 | 4,261 | 4,170 | 8,294 | 11,403 |
| Loss due to curtailments and settlements | — | 49 | — | — | — | 49 |
| Net periodic benefit cost | \$13,836 | \$17,105 | \$9,560 | \$7,376 | \$23,396 | \$24,481 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 9 – STOCK-BASED PAYMENT

The Company currently has four stock-based employee and director compensation award types (Restricted Stock Unit, Stock Option Plans, Management Stock Purchase Plan (“MSPP”), and Employee Stock Purchase Plan (“ESPP”)), which are more fully described in Note 15, Common Stock, to the consolidated financial statements included in the 2013 Form 10-K.

The detailed components of stock-based compensation expense recorded in the condensed consolidated statements of earnings for the three and nine months ended April 30, 2014 and April 30, 2013 are reflected in the table below:

| | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Restricted stock units | \$5,064 | \$3,978 | \$15,511 | \$11,895 |
| Stock options | 2,069 | 1,825 | 5,555 | 4,503 |
| MSPP | 961 | 976 | 2,125 | 2,763 |
| ESPP | 273 | 302 | 771 | 992 |
| Total | \$8,367 | \$7,081 | \$23,962 | \$20,153 |

NOTE 10 – EARNINGS PER SHARE

The condensed consolidated statements of earnings present basic and diluted earnings per share. Basic earnings per share is determined by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share considers the potential effect of dilution on basic earnings per share assuming potentially dilutive shares that meet certain criteria, such as those issuable upon exercise of stock options, were outstanding. The treasury stock method reduces the dilutive effect of potentially dilutive securities as it assumes that any cash proceeds (from the issuance of potentially dilutive securities) are used to buy back shares at the average share price during the period. Equity awards aggregating 496 and 742 shares were not included in the computation of diluted shares for the three months ended April 30, 2014 and April 30, 2013, respectively, because their effect would have been antidilutive. For the nine months ended April 30, 2014 and April 30, 2013, 524 and 586 antidilutive shares, respectively, were excluded. The following is a reconciliation between basic shares outstanding and diluted shares outstanding:

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Basic shares outstanding | 110,183 | 111,964 | 110,946 | 112,979 |
| Effect of stock plans | 1,283 | 1,347 | 1,269 | 1,436 |
| Diluted shares outstanding | 111,466 | 113,311 | 112,215 | 114,415 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 11 – FAIR VALUE MEASUREMENTS

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

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

Level 1: Use of observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3: Use of inputs that are unobservable.

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of April 30, 2014:

| | Fair Value Measurements | | | |
|---|-------------------------|---------|---------|---------|
| | As of Apr 30, 2014 | Level 1 | Level 2 | Level 3 |
| Financial assets carried at fair value | | | | |
| Money market funds | \$3,948 | \$3,948 | \$— | \$— |
| Available-for-sale securities: | | | | |
| Equity securities | 4,524 | 4,524 | — | — |
| Debt securities: | | | | |
| Corporate | 30,359 | — | 30,359 | — |
| U.S. Treasury | 10,416 | — | 10,416 | — |
| Federal agency | 16,374 | — | 16,374 | — |
| Mortgage-backed | 9,544 | — | 9,544 | — |
| Trading securities | 788 | 788 | — | — |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 3,555 | — | 3,555 | — |
| Financial liabilities carried at fair value | | | | |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 689 | — | 689 | — |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The following table presents, for each of these hierarchy levels, the Company's financial assets and liabilities that are measured at fair value on a recurring basis as of July 31, 2013:

| | Fair Value Measurements | | | |
|---|-------------------------|---------|---------|---------|
| | As of Jul 31, 2013 | Level 1 | Level 2 | Level 3 |
| Financial assets carried at fair value | | | | |
| Money market funds | \$6,404 | \$6,404 | \$— | \$— |
| Available-for-sale securities: | | | | |
| Equity securities | 176 | 176 | — | — |
| Debt securities: | | | | |
| Corporate | 32,393 | — | 32,393 | — |
| U.S. Treasury | 11,543 | — | 11,543 | — |
| Federal agency | 20,642 | — | 20,642 | — |
| Mortgage-backed | 5,990 | — | 5,990 | — |
| Trading securities | 190 | 190 | — | — |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 301 | — | 301 | — |
| Financial liabilities carried at fair value | | | | |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 3,066 | — | 3,066 | — |

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

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

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

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 12 – INVESTMENT SECURITIES

The following is a summary of the Company's available-for-sale investment securities by category which are classified within other non-current assets in the Company's condensed consolidated balance sheets. Contractual maturity dates of debt securities held by the benefits protection trusts at April 30, 2014 range from 2014 to 2046.

| | Cost/ Amortized Cost Basis | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Net Unrealized Holding Gains/(Losses) |
|-------------------|----------------------------------|------------|---|--|---|
| April 30, 2014 | | | | | |
| Equity securities | \$5,029 | \$4,524 | \$5 | \$(510) | \$(505) |
| Debt securities: | | | | | |
| Corporate | 29,435 | 30,359 | 1,172 | (248) | 924 |
| U.S. Treasury | 10,310 | 10,416 | 215 | (109) | 106 |
| Federal agency | 16,075 | 16,374 | 878 | (579) | 299 |
| Mortgage-backed | 9,366 | 9,544 | 189 | (11) | 178 |
| | \$70,215 | \$71,217 | \$2,459 | \$(1,457) | \$1,002 |
| July 31, 2013 | | | | | |
| Equity securities | \$176 | \$176 | \$— | \$— | \$— |
| Debt securities: | | | | | |
| Corporate | 31,546 | 32,393 | 1,274 | (427) | 847 |
| U.S. Treasury | 11,339 | 11,543 | 294 | (90) | 204 |
| Federal agency | 19,810 | 20,642 | 1,131 | (299) | 832 |
| Mortgage-backed | 5,752 | 5,990 | 238 | — | 238 |
| | \$68,623 | \$70,744 | \$2,937 | \$(816) | \$2,121 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

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

| | Less than 12 months | | 12 months or greater | | Total | Gross Unrealized Holding Losses |
|-------------------|---------------------|--|----------------------|--|---------------|--|
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | |
| April 30, 2014 | | | | | | |
| Debt securities: | | | | | | |
| Corporate | \$8,865 | \$(248) | \$— | \$— | \$8,865 | \$(248) |
| U.S. Treasury | 4,372 | (109) | — | — | 4,372 | (109) |
| Federal agency | 1,634 | (63) | 1,598 | (516) | 3,232 | (579) |
| Mortgage-backed | 1,109 | (11) | — | — | 1,109 | (11) |
| Equity securities | 4,326 | (510) | — | — | 4,326 | (510) |
| | \$20,306 | \$(941) | \$1,598 | \$(516) | \$21,904 | \$(1,457) |
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| July 31, 2013 | | | | | | |
| Debt securities: | | | | | | |
| Corporate | \$10,990 | \$(427) | \$— | \$— | \$10,990 | \$(427) |
| U.S. Treasury | 3,778 | (90) | — | — | 3,778 | (90) |
| Federal agency | 3,701 | (299) | — | — | 3,701 | (299) |
| | \$18,469 | \$(816) | \$— | \$— | \$18,469 | \$(816) |

The following table shows the proceeds and gross gains and losses from the sale of available-for-sale investments for the three and nine months ended April 30, 2014 and April 30, 2013:

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Proceeds from sales | \$4,915 | \$883 | \$7,973 | \$13,169 |
| Realized gross gains on sales | 93 | 18 | 177 | 370 |
| Realized gross losses on sales | 6 | — | 106 | 5 |

The following is a summary of the Company's trading securities by category which are classified within other non-current assets in the Company's condensed consolidated balance sheets.

| | Apr 30, 2014 | Jul 31, 2013 |
|--------------------------|--------------|--------------|
| Equity securities | \$788 | \$190 |
| Total trading securities | \$788 | \$190 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The following table shows the net gains and losses recognized on trading securities for the three and nine months ended April 30, 2014 and April 30, 2013:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Gains/(losses), net recognized for securities held | \$(1) | \$— | \$22 | \$— |
| Gains/(losses), net recognized for securities sold | — | — | — | — |
| Total gains/(losses), net recognized | \$(1) | \$— | \$22 | \$— |

NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company manages certain financial exposures through a risk management program that includes the use of foreign exchange derivative financial instruments. Derivatives are executed with counterparties with a minimum credit rating of “A” by Standard & Poors and “A2” by Moody’s Investor Services, in accordance with the Company’s policies. The Company does not utilize derivative instruments for trading or speculative purposes. As of April 30, 2014, the Company had foreign currency forward contracts outstanding with notional amounts aggregating \$512,733, whose fair values were a net asset of \$2,866.

Foreign Exchange Related:

a. Derivatives Not Designated as Hedging Instruments

The risk management objective of holding foreign exchange derivatives is to mitigate volatility to earnings and cash flows due to changes in foreign exchange rates. The Company and its subsidiaries conduct transactions in currencies other than their functional currencies. These transactions include non-functional intercompany and external sales as well as intercompany and external purchases. The Company uses foreign exchange forward contracts, matching the notional amounts and durations of the receivables and payables resulting from the aforementioned underlying foreign currency transactions, to mitigate the exposure to earnings and cash flows caused by the changes in fair value of these receivables and payables from fluctuating foreign exchange rates. The notional amount of foreign currency forward contracts not designated as hedging instruments entered into during the three and nine months ended April 30, 2014 was \$664,039 and \$1,845,481, respectively. The notional amount of foreign currency forward contracts outstanding that were not designated as hedging instruments as of April 30, 2014 was \$406,572.

b. Cash Flow Hedges

The Company uses foreign exchange forward contracts for cash flow hedging on its future transactional exposure to the Euro due to changes in market rates to exchange Euros for British Pounds. The hedges cover a British subsidiary (British Pound functional) with Euro revenues and a Swiss subsidiary (Euro functional) with British Pound expenses. The probability of the occurrence of these transactions is high and the Company’s assessment is based on observable facts including the frequency and amounts of similar past transactions. The objective of the cash flow hedges is to lock a portion of the British Pound equivalent amount of Euro sales for the British subsidiary and a portion of the Euro equivalent amount of British Pound expenses for the Swiss subsidiary at the agreed upon exchange rates in the foreign exchange forward contracts. The notional amount of foreign currency forward contracts designated as hedging instruments entered into during the three and nine months ended April 30, 2014 was \$23,174 and \$77,941. The notional amount of foreign currency forward contracts outstanding designated as hedging instruments as of April 30, 2014 was \$106,161 and covers certain monthly transactional exposures through May 2015.

c. Net Investment Hedges

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

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

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

| April 30, 2014 | Asset Derivatives Balance Sheet Location | Fair Value | Liability Derivatives Balance Sheet Location | Fair Value |
|---|--|------------|--|------------|
| Derivatives designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$2,895 | Other current liabilities | \$7 |
| Derivatives not designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$660 | Other current liabilities | \$682 |
| Total derivatives | | \$3,555 | | \$689 |
| Nonderivative instruments designated as hedging instruments | | | | |
| Net investment hedge | | | Long-term debt, net of current portion | \$87,687 |
| July 31, 2013 | Asset Derivatives Balance Sheet Location | Fair Value | Liability Derivatives Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$— | Other current liabilities | \$1,941 |
| Derivatives not designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$301 | Other current liabilities | \$1,125 |
| Total derivatives | | \$301 | | \$3,066 |
| Nonderivative instruments designated as hedging instruments | | | | |
| Net investment hedge | | | Long-term debt, net of current portion | \$91,800 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The amounts of the gains and losses related to the Company's derivative financial instruments designated as hedging instruments for the three and nine months ended April 30, 2014 and April 30, 2013 are presented as follows:

| | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(a) | |
|---|---|--------------|---|--|--------------|
| | | | | Three Months Ended | |
| | Three Months Ended Apr 30, 2014 | Apr 30, 2013 | | Three Months Ended Apr 30, 2014 | Apr 30, 2013 |
| Derivatives in cash flow hedging relationships | | | | | |
| Foreign exchange forward contracts | \$305 | \$1,548 | Net sales | \$440 | \$(615) |
| | | | Cost of sales | 171 | (537) |
| Total derivatives | \$305 | \$1,548 | | \$611 | \$(1,152) |

| | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(a) | |
|---|---|--------------|---|--|--------------|
| | | | | Nine Months Ended | |
| | Nine Months Ended Apr 30, 2014 | Apr 30, 2013 | | Nine Months Ended Apr 30, 2014 | Apr 30, 2013 |
| Derivatives in cash flow hedging relationships | | | | | |
| Foreign exchange forward contracts | \$5,615 | \$(2,229) | Net sales | \$552 | \$(1,002) |
| | | | Cost of sales | (695) | (707) |
| Total derivatives | \$5,615 | \$(2,229) | | \$(143) | \$(1,709) |

There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship (a) or related to the amount excluded from the assessment of hedge effectiveness for the three and nine months ended April 30, 2014 and April 30, 2013.

The amounts of the gains and losses related to the Company's derivative financial instruments not designated as hedging instruments for the three and nine months ended April 30, 2014 and April 30, 2013 are presented as follows:

| | Location of Gain or (Loss) Recognized in Earnings on Derivatives | Amount of Gain or (Loss) Recognized in Earnings on Derivatives | | | |
|--|--|---|-----------------|-------------------|-----------------|
| | | Three Months Ended | | Nine Months Ended | |
| | | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Derivatives not designated as hedging relationships | | | | | |
| Foreign exchange forward contracts | Selling, general and administrative expenses | \$(607) | \$(5,206) | \$(2,950) | \$(15,032) |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The amounts of the gains and losses related to the Company's nonderivative financial instruments designated as hedging instruments for the three and nine months ended April 30, 2014 and April 30, 2013 are presented as follows:

| | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(b) | |
|---|--|--------------|--|---|--------------|
| | Three Months Ended Apr 30, 2014 | Apr 30, 2013 | | Three Months Ended Apr 30, 2014 | Apr 30, 2013 |
| Nonderivatives designated as hedging relationships | | | | | |
| Net investment hedge | \$63 | \$4,320 | N/A | \$— | \$— |
| | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(b) | |
| | Nine Months Ended Apr 30, 2014 | Apr 30, 2013 | | Nine Months Ended Apr 30, 2014 | Apr 30, 2013 |
| Nonderivatives designated as hedging relationships | | | | | |
| Net investment hedge | \$(4,113) | \$14,757 | N/A | \$— | \$— |

There were no gains or losses recognized in earnings related to the ineffective portion of the hedging relationship (b) or related to the amount excluded from the assessment of hedge effectiveness for the three and nine months ended April 30, 2014 and April 30, 2013.

NOTE 14 – ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

Changes in accumulated other comprehensive income by component are presented below:

| | Foreign Currency Translation | Defined Benefit Pension Plan | Unrealized investment gains/(losses) | Unrealized gains/(losses) on derivatives | Accumulated other comprehensive income/(loss) |
|---|------------------------------------|---------------------------------|--|--|--|
| Balance at July 31, 2013 | \$84,598 | \$(125,211) | \$2,123 | \$(2,302) | \$(40,792) |
| Other comprehensive income/(loss) before reclassifications | 46,330 | — | (813) | 5,154 | 50,671 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 6,551 | 215 | 255 | 7,021 |
| Foreign exchange adjustments and other | — | (6,597) | — | — | (6,597) |
| Balance at April 30, 2014 | \$130,928 | \$(125,257) | \$1,525 | \$3,107 | \$10,303 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

Reclassifications out of accumulated other comprehensive income are presented below:

| | Three Months Ended | Nine Months Ended | Affected line item in the |
|---|--------------------|-------------------|---------------------------|
| | Apr 30, 2014 | Apr 30, 2014 | Condensed Consolidated |
| | | | Statement of Earnings |
| Defined Benefit Pension Plan | | | |
| Amortization of prior service cost | \$ (385 |) \$ (1,154 |) Note (a) |
| Recognized actuarial gain/(loss) | (2,794 |) (8,294 |) Note (a) |
| Total before tax | (3,179 |) (9,448 |) |
| Tax (expense)/benefit | 958 | 2,897 |) |
| Net of tax | \$ (2,221 |) \$ (6,551 |) |
| Unrealized investment gains/(losses) | | | |
| Realized investment gain/(losses) | \$ (217 |) \$ (336 |) Selling, general and |
| Tax (expense)/benefit | 78 | 121 | administrative |
| Net of tax | \$ (139 |) \$ (215 |) |
| Unrealized gains/(losses) on derivatives | | | |
| Foreign exchange forward contracts | \$ 440 | \$ 552 | Sales |
| Foreign exchange forward contracts | 171 | (695 |) Cost of sales |
| Total before tax | 611 | (143 |) |
| Tax (expense)/benefit | (102 |) (112 |) |
| Net of tax | \$ 509 | \$ (255 |) |

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 8, Components of Net Periodic Pension Cost, for additional details).

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 15 – SEGMENT INFORMATION

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

The following table presents sales and segment profit from continuing operations by business segment reconciled to earnings from continuing operations before income taxes for the three and nine months ended April 30, 2014 and April 30, 2013.

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| SALES: | | | | |
| Life Sciences | \$368,835 | \$326,097 | \$1,041,011 | \$955,230 |
| Industrial | 313,610 | 315,093 | 948,182 | 976,015 |
| Total | \$682,445 | \$641,190 | \$1,989,193 | \$1,931,245 |
| SEGMENT PROFIT: | | | | |
| Life Sciences | \$88,339 | \$81,195 | \$252,240 | \$233,514 |
| Industrial | 49,350 | 45,853 | 146,723 | 146,723 |
| Total segment profit | 137,689 | 127,048 | 398,963 | 380,237 |
| Corporate Services Group | 17,304 | 15,172 | 48,034 | 47,263 |
| ROTC | 11,542 | 12,824 | 29,910 | 21,497 |
| Interest expense, net | 4,747 | 5,298 | 15,919 | 10,747 |
| Earnings from continuing operations before income taxes | \$104,096 | \$93,754 | \$305,100 | \$300,730 |

NOTE 16 – DISCONTINUED OPERATIONS

On April 28, 2012, the Company entered into an asset purchase agreement (“APA”) to sell certain assets of its blood collection, filtration and processing product line (the “Product Line”) to Haemonetics Corporation (“Haemonetics”) for approximately \$550,000. The transaction involved the transfer of manufacturing facilities and equipment in Covina, California; Tijuana, Mexico; Ascoli, Italy and a portion of the Company's operations in Fajardo, Puerto Rico. In addition to the manufacturing facilities and related equipment, the Company transferred Product Line related inventory and intangible assets. Haemonetics also assumed certain employee-related liabilities. The sale closed on August 1, 2012, and approximately 1,400 employees transitioned to Haemonetics at that time.

Separate from these manufacturing facilities, the Company also agreed to transfer related blood media manufacturing capabilities and assets to Haemonetics. The transfer of the related media lines is expected to be completed by calendar year 2016. Until that time, the Company is providing these media products to Haemonetics under a supply agreement. Under the terms of the APA, approximately \$535,000 was paid upon closing, with the balance of the purchase price payable upon the Company's delivery of the aforementioned blood media manufacturing capability and related assets. The Product Line, which was a component of the Company's Life Sciences segment, met the criteria for discontinued operations and held for sale presentation during the third quarter of fiscal year 2012 and has been reported as a discontinued operation in the Company's condensed consolidated financial statements. The Company did not allocate any portion of the Company's interest expense to discontinued operations.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The key components of discontinued operations for the three and nine months ended April 30, 2013 were as follows:

| | Three Months Ended Apr 30, 2013 | Nine Months Ended Apr 30, 2013 |
|---|------------------------------------|-----------------------------------|
| Net sales | \$ 344 | \$ 8,867 |
| Earnings/(loss) from discontinued operations before income taxes | \$(1,896 |) \$ 392,425 |
| Provision/(benefit) for income taxes | (690 |) 146,873 |
| Earnings/(loss) from discontinued operations, net of income taxes | \$(1,206 |) \$ 245,552 |

Included in earnings from discontinued operations before income taxes above are a (loss)/gain on the sale of the Product Line of \$(545) and \$396,793, respectively, for the three and nine months ended April 30, 2013.

NOTE 17 – ACQUISITIONS

During the first and second quarters of fiscal 2014, the Company completed two acquisitions - Medistad Holding BV, a European manufacturing entity, and SoloHill Engineering, Inc., a United States technology company. The aggregate consideration for these acquisitions was \$30,677, which included approximately \$3,000 of contingent consideration. On February 20, 2014, the Company acquired the Life Sciences business of ATMI, Inc. (“ATMI LifeSciences”). ATMI LifeSciences is a technology leader in the field of single-use bioprocess equipment and consumables for the biopharmaceutical and biotechnology industries. The acquisition includes the ATMI LifeSciences portfolio of custom-engineered, flexible packaging solutions, single-use storage systems, mixers and bioreactors. The Company paid a cash purchase price of \$185,000, and an additional \$5,793 related to working capital adjustments. The acquisition of ATMI LifeSciences broadens the Company's upstream presence in bioprocessing and complements its established downstream capabilities. Combined with the aforementioned acquisitions, both innovators in the single-use market, and the Company's already solid portfolio of biopharmaceutical solutions, the addition of the ATMI LifeSciences assets well positions the Company to capitalize on opportunities in the rapidly growing single-use market segment.

The above transactions (the “2014 acquisitions”) were funded with available cash and borrowings under the Company's commercial paper program. Tangible and intangible assets acquired and liabilities assumed were recognized based upon their estimated fair values at the respective closing dates. The Company is currently in the process of finalizing the valuations of acquired tangible and intangible assets and liabilities, and will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed, in the aggregate, for the 2014 acquisitions as of April 30, 2014.

| | |
|--|-----------|
| Purchase price, including working capital adjustments | \$221,470 |
| Cash acquired | 832 |
| Purchase price, net of cash acquired | 220,638 |
| Accounts receivable | 10,959 |
| Inventories | 22,299 |
| Other current assets | 6,891 |
| Property, plant and equipment | 30,177 |
| Intangible assets | 86,568 |
| Other non-current assets | 5,866 |
| Total identifiable assets acquired, net of cash acquired | 162,760 |
| Current liabilities | 15,722 |
| Non-current liabilities | 26,144 |
| Total liabilities assumed | 41,866 |
| Goodwill (excess cost over value of net assets acquired) | \$99,744 |

The Company recorded an aggregate of \$99,744 of goodwill related to the 2014 acquisitions, none of which is expected to be deductible for income tax purposes.

The results of operations for the acquisitions since their respective acquisition dates are included in the accompanying condensed consolidated financial statements and reported in the Life Sciences segment results in Note 15, Segment Information. The impact of the 2014 acquisitions was not material, individually or in the aggregate, to the company's consolidated financial position or results from operations. Additionally, assuming these transactions had occurred at the beginning of the respective fiscal years, the consolidated pro forma results would not be materially different from reported results for the nine months ended April 30, 2014 and April 30, 2013.

NOTE 18 – SUBSEQUENT EVENT

On May 1, 2014, the Company acquired Filter Specialists, Inc. (“FSI”), one of the industry’s leading suppliers of filter bags. FSI has developed an extremely strong brand since being established in 1972. Their technology is a direct complement to the Company's existing product line and enables it to provide a broader and more complete portfolio of products. Additionally, this acquisition will increase the Company's footprint in the automotive paint, chemical, petrochemical, oil and gas, and food and beverage markets. On the Closing Date, the Company paid a cash purchase price of \$124,000, subject to a post closing working capital adjustment.

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

The following discussion should be read together with the accompanying condensed consolidated financial statements and notes thereto and other financial information in this Form 10-Q and in the Pall Corporation and its subsidiaries (hereinafter collectively referred to as the "Company", "we" and "our") Annual Report on Form 10-K for the fiscal year ended July 31, 2013 ("2013 Form 10-K"). Certain information is presented below excluding the impact of foreign exchange translation ("translational FX") (i.e., had exchange rates not changed year over year). We consider year over year change excluding translational FX to be an important measure because by excluding the impact of volatility of exchange rates, underlying impact of volume and rate changes are evident. United States ("U.S.") 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. Our gross margin is impacted by the fluctuation of the costs of products that are sourced in a currency different from the currency they are sold in ("transactional FX") and our discussion of gross margin below may include references to this. We utilize certain estimates and assumptions that affect the reported financial information as well as to quantify the impact of various significant factors that contribute to the changes in our periodic results included in the discussion below.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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

Our forward-looking statements are subject to risks and uncertainties and are not guarantees of future performance, and actual results, developments and business decisions may differ materially from those envisaged by our forward-looking statements. Such risks and uncertainties include, but are not limited to, those discussed in Part I-Item 1A.-Risk Factors in the 2013 Form 10-K, and other reports we file with the Securities and Exchange Commission, including: the impact of disruptions in the supply of raw materials and key components from suppliers, including limited or single source suppliers; the impact of terrorist acts, conflicts and wars or natural disasters; the extent to which special U.S. and foreign government laws and regulations may expose us to liability or impair our ability to compete in international markets; the impact of economic, political, social and regulatory instability in emerging markets, and other risks characteristic of doing business in emerging markets; fluctuations in foreign currency exchange rates and interest rates; the impact of a significant disruption in, or breach in security of, our information technology systems, or the failure to implement, manage or integrate new systems, software or technologies successfully; our ability to successfully complete or integrate acquisitions; our ability to develop innovative and competitive new products; the impact of global and regional economic conditions and legislative, regulatory and political developments; our ability to comply with a broad array of regulatory requirements; the loss of one or more members of our senior management team and our ability to recruit and retain qualified management personnel; changes in the demand for our products and the maintenance of business relationships with key customers; changes in product mix and product pricing, particularly with respect to systems products and associated hardware and devices for our consumable filtration products; product defects and unanticipated use or inadequate disclosure with respect to our products; our ability to deliver our backlog on time; increases in manufacturing and operating costs and/or our ability to achieve the savings anticipated from our structural cost improvement initiatives; the impact of environmental, health and safety laws and regulations and violations; our ability to enforce patents or protect proprietary products and manufacturing techniques; costs and outcomes of pending or future litigation and the availability of insurance or indemnification rights; changes in our effective tax rate; our ability to compete effectively in domestic and global markets; and the effect of the restrictive covenants in our debt facilities. Factors or events that

could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We make these statements as of the date of this disclosure and undertake no obligation to update them, whether as a result of new information, future developments or otherwise.

OVERVIEW

We are a leading supplier of filtration, separation and purification technologies. Our products are used to remove solid, liquid and gaseous contaminants from a variety of liquids and gases, and are principally made by us, using our engineering capability, fluid management expertise, proprietary filter media and manufacturing expertise. Our products primarily consist of consumable filtration products and filtration systems.

We serve customers through two businesses globally: Life Sciences and Industrial. The Life Sciences business group serves customers in the BioPharmaceutical, Food & Beverage and Medical markets. The Industrial business group serves customers in the Process Technologies, Aerospace and Microelectronics markets. We operate globally in three geographic regions: the Americas; Europe (in which we include the Middle East and Africa); and Asia.

Our reporting currency is the U.S. Dollar. Because we operate through subsidiaries or branches that transact in over thirty foreign currencies around the world, our earnings are exposed to translation risk when the financial statements of the subsidiaries or branches, as stated in their functional currencies, are translated into the U.S. Dollar. We estimate that translational FX decreased sales by approximately \$600 and earnings per share by approximately 1 cent in the three months ended April 30, 2014 when compared to the three months ended April 30, 2013. We estimate that translational FX decreased sales by approximately \$21,400 and earnings per share by approximately 7 cents in the nine months ended April 30, 2014 when compared to the nine months ended April 30, 2013.

On August 1, 2012, we sold our blood collection, filtration and processing product line (the “Blood Product Line”) to Haemonetics Corporation for \$550,000. We received a total of approximately \$535,000 upon closing, with the balance payable upon transfer of related blood media manufacturing capabilities and assets. The Blood Product Line was a component of our Life Sciences segment and has been reported as a discontinued operation for all periods presented. During the first and second quarters of fiscal 2014, we completed two acquisitions - Medistad Holding BV (“Medistad”), a European manufacturing entity, and SoloHill Engineering, Inc. (“SoloHill”), a U.S. technology company. The aggregate consideration for these acquisitions was approximately \$31 million, net of cash acquired, and included \$3 million of contingent consideration. On February 20, 2014 (the “Closing Date”), we acquired the Life Sciences business of ATMI, Inc. (“ATMI LifeSciences”). ATMI LifeSciences is a technology leader in the field of single-use bioprocess equipment and consumables for the biopharmaceutical and biotechnology industries. On the Closing Date, the Company paid a cash purchase price, inclusive of working capital adjustments, of approximately \$191 million. The acquisition of ATMI LifeSciences complements our upstream presence in bioprocessing and complements our established downstream capabilities. Combined with the aforementioned acquisitions, both innovators in the single-use market, and our already solid portfolio of biopharmaceutical solutions, the addition of the ATMI LifeSciences assets positions us well to capitalize on opportunities in the rapidly growing single-use market segment. These acquisitions did not have a material impact on our results from operations or financial position. See Note 17, Acquisitions, to the accompanying condensed consolidated financial statements for further detail.

RESULTS FROM CONTINUING OPERATIONS

Net Sales

| By Segment | Three Months Ended | | Nine Months Ended | |
|---------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Life Sciences | \$368,835 | \$326,097 | \$1,041,011 | \$955,230 |
| Industrial | 313,610 | 315,093 | 948,182 | 976,015 |
| Total Sales | \$682,445 | \$641,190 | \$1,989,193 | \$1,931,245 |

| By Product | Three Months Ended | | Nine Months Ended | |
|-------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Consumables | \$603,872 | \$571,029 | \$1,743,842 | \$1,695,683 |
| Systems | 78,573 | 70,161 | 245,351 | 235,562 |
| Total Sales | \$682,445 | \$641,190 | \$1,989,193 | \$1,931,245 |

The percentage change in sales for the three and nine months ended April 30, 2014 compared to the three and nine months ended April 30, 2013 by segment, with and without the impact of translational FX, are presented below:

| By Segment | Three Months | | | Nine Months | | |
|---------------|--|---------------------|-------------------|--|---------------------|-------------------|
| | % Change excluding translational FX | Translational FX | Total % Change | % Change excluding translational FX | Translational FX | Total % Change |
| Life Sciences | 12.3 | 0.8 | 13.1 | 9.2 | (0.2) | 9.0 |
| Industrial | 0.5 | (1.0) | (0.5) | (0.8) | (2.1) | (2.9) |
| Total | 6.5 | (0.1) | 6.4 | 4.1 | (1.1) | 3.0 |

The percentage change in sales for the three and nine months ended April 30, 2014 compared to the three and nine months ended April 30, 2013 by product, with and without the impact of translational FX, are presented below:

| By Product | Three Months | | | Nine Months | | |
|-------------|--|---------------------|-------------------|--|---------------------|-------------------|
| | % Change excluding translational FX | Translational FX | Total % Change | % Change excluding translational FX | Translational FX | Total % Change |
| Consumables | 5.7 | 0.1 | 5.8 | 3.9 | (1.1) | 2.8 |
| Systems | 13.0 | (1.0) | 12.0 | 5.7 | (1.5) | 4.2 |
| Total | 6.5 | (0.1) | 6.4 | 4.1 | (1.1) | 3.0 |

Three Months

Total sales increased approximately 7% (excluding translational FX) reflecting growth in all markets in the Life Sciences segment, including the benefit of acquisitions, and in the Microelectronics market in the Industrial segment, partly offset by a decline in the Aerospace market in the Industrial segment. Total sales in the Process Technologies market in the Industrial segment were essentially flat. The acquisitions of ATMI LifeSciences, Medistad and SoloHill contributed approximately 270 basis points to total sales growth compared to last year. More details regarding sales by segment can be found in the discussions under the section "Segment Review."

The approximate 6% increase in consumables sales (excluding translational FX) reflects the same trend as total sales discussed above. Increased pricing contributed approximately \$5,200, or about 90 basis points, to consumables sales growth, reflecting increases in both segments.

The 13% increase in system sales (excluding translational FX) reflects timing of capital projects in the Life Sciences segment, partly offset by a decline in the Fuels & Chemicals submarket of Process Technologies in the Industrial segment.

Nine Months

Total sales increased approximately 4% (excluding translational FX) reflecting growth in all markets in the Life Sciences segment, including the benefit of acquisitions, and in the Microelectronics market in the Industrial segment, partly offset by declines in the Process Technologies and Aerospace markets in the Industrial segment. The acquisitions of ATMI LifeSciences, Medistad and SoloHill contributed approximately 140 basis points to total sales growth compared to last year.

The approximate 4% increase in consumables sales (excluding translational FX) reflects the same trend as total sales discussed above. Increased pricing contributed approximately \$12,600, or about 70 basis points, to consumables sales growth, reflecting increases in both segments.

The increase in system sales of approximately 6% (excluding translational FX) reflects the same trend as the three months discussed above.

Gross Margin

| | Three Months Ended | | Nine Months Ended | |
|--------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Gross Profit | \$348,074 | \$334,079 | \$1,018,047 | \$1,003,125 |
| % of sales | 51.0 | 52.1 | 51.2 | 51.9 |
| % Change | 4.2 | | 1.5 | |

Three Months

The decrease in overall gross margin of 110 basis points primarily reflects the impact of the following unfavorable factors:

- transactional FX (principally related to the Yen and British pound),
- a higher proportion of systems sales and lower margin systems projects in the current quarter,
- lower gross margin rates from the Medistad and ATMI LifeSciences acquisitions, and
- a purchase accounting adjustment related to the step-up of acquired inventory that was sold in the period.

These factors were partly offset by improved pricing and favorable customer mix. More details regarding gross margin can be found in the discussions under the section “Segment Review.”

Nine Months

The decrease in overall gross margin of 70 basis points primarily reflects the same factors discussed above for the three months.

Selling, General and Administrative

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Selling, general and administrative | \$201,045 | \$199,595 | \$592,228 | \$601,569 |
| % of sales | 29.5 | 31.1 | 29.8 | 31.1 |
| % Change | 0.7 | | (1.6) | |

Three Months

The decrease in selling, general and administrative expenses (“SG&A”) as a percent of sales of 160 basis points reflects savings generated by our structural cost improvement initiative and better fixed cost leverage. This was partly offset by:

- select investments in high growth markets; and
- inflationary increases in payroll and related costs.

Nine Months

The decrease in SG&A as a percent of sales of 130 basis points reflects the same factors as discussed above in the three months.

Research & Development

| | Three Months Ended | | Nine Months Ended | |
|--------------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Research and development | \$26,644 | \$22,608 | \$74,890 | \$68,582 |
| % of sales | 3.9 | 3.5 | 3.8 | 3.6 |
| | | | | |
| % Change | 17.9 | | 9.2 | |

Three Months

The increase in research and development expenses (“R&D”), reflects our strategy to increase innovation investment in the Life Sciences and Industrial segments. This was driven by our focus on new product development and development of our media and instrumentation capabilities. Additionally, the increase in R&D reflects ATMI LifeSciences related spend.

Nine Months

The increase in R&D reflects the same factors as discussed above in the three months.

Restructuring and Other Charges, Net

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Restructuring and other charges, net | \$11,542 | \$12,824 | \$29,910 | \$21,497 |

In fiscal year 2012, we announced a multi-year strategic cost reduction initiative (“structural cost improvement initiative”). This initiative impacts both segments as well as the Corporate Services Group. Our goal is to properly position our cost structure globally to perform in the current economic environment without adversely impacting our growth or innovation potential.

Key components of the structural cost improvement initiative include:

- the strategic alignment of our manufacturing, sales and R&D facilities to cost-effectively deliver high-quality products and superior service to our customers worldwide,
- creation of regional shared financial services centers for the handling of accounting transaction processing and other accounting functions,
- reorganization of sales functions, to more cost- efficiently deliver superior service to our customers globally, and
- reductions in headcount across all functional areas, enabled by efficiencies gained through our ERP systems, as well as in order to align to economic conditions.

The structural cost improvement initiative is expected to generate \$100,000 in annualized cost savings over a three year period, which will allow us to invest in resources where needed. Approximately half of the targeted \$100,000 annualized savings were achieved by the end of fiscal year 2013. We expect to achieve more than 30% of the targeted savings in fiscal year 2014 with the balance achieved in fiscal year 2015. We expect to fund these restructuring activities with cash flows generated from operating activities.

Restructuring and other charges (“ROTC”) in the three and nine months ended April 30, 2014 primarily reflect the expenses incurred in connection with our structural cost improvement initiative, as discussed above, including severance costs of \$8,289 and \$18,751 in the three and nine months ended April 30, 2014, respectively. The three and nine months ended April 30, 2014 also includes the impairment of assets of \$3,986 related to the discontinuance of a specific manufacturing line due to excess capacity as a result of recent acquisitions. In addition, the nine months ended April 30, 2014 includes an increase of \$4,440 to our previously established environmental reserves related to a matter in Pinellas Park, Florida.

ROTC in the three and nine months ended April 30, 2013 primarily reflect the expenses incurred in connection with our structural cost improvement initiative, as discussed above, including severance costs of \$5,701 and \$10,896 in the three and nine months ended April 30, 2013, respectively. In addition, the three and nine months ended April 30, 2013 includes an increase of \$2,715 to our previously established environmental reserves related to a matter in Glen Cove, New York.

The details of ROTC, as well as the activity related to restructuring liabilities that were recorded related to our structural cost improvement initiative, can be found in Note 6, Restructuring and Other Charges, Net, to the accompanying condensed consolidated financial statements.

Interest Expense, Net

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Interest expense, net | \$4,747 | \$5,298 | \$15,919 | \$10,747 |

Three Months

Interest expense, net, in the three months ended April 30, 2014 reflects the reversal of accrued interest of \$1,478, related to the resolution of foreign tax audits. Excluding this benefit, interest expense, net, in the three months ended April 30, 2014 would have been \$6,225. The resulting increase in net interest expense of \$927 was primarily driven by an increase in other income tax related interest expense (excluding the item referenced above), increased interest expense related to higher commercial paper borrowings and a decrease in interest income.

Nine Months

Interest expense, net, in the nine months ended April 30, 2014 reflects the reversal of accrued interest of \$1,478, related to the resolution of foreign tax audits. Interest expense, net, in the nine months ended April 30, 2013 reflects the reversal of accrued interest of \$6,704, related to the resolution of a U.S. tax audit. Excluding these benefits, interest expense, net, in the nine months ended April 30, 2014 and April 30, 2013 would have been \$17,397 and \$17,451, respectively. The resulting decrease in net interest expense of \$54 was primarily driven by a reduction in other income tax related interest expense (excluding the items referenced above) partly offset by increased interest expense related to higher commercial paper borrowings and a decrease in interest income.

Income Taxes

| | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Income taxes | \$15,405 | \$19,483 | \$61,230 | \$56,975 |
| Effective tax rate (%) | 14.8 | 20.8 | 20.1 | 18.9 |

The effective tax rate for the three and nine months ended April 30, 2014 reflects a net tax benefit of \$10,054 from the resolution of tax audits. The effective tax rate for the nine months ended April 30, 2013 reflects a net tax benefit of \$7,757 primarily from the resolution of a U.S. tax audit partly offset by the establishment of deferred tax liabilities for the repatriation of foreign earnings. Excluding these impacts, as well as the impact of ROTC and inventory step-up in cost of sales discussed above, the effective tax rate for the three months ended April 30, 2014 and April 30, 2013 would have been 22.5% and 21.6%, respectively. The effective tax rate for the nine months ended April 30, 2014 and April 30, 2013 would have been 22.2% and 22.2%, respectively. We expect our effective tax rate for the full fiscal year 2014 to be approximately 22.5%, exclusive of the impact of ROTC and discrete items. The actual effective tax rate for the full fiscal year 2014 may differ materially based on several factors, including the geographical mix of earnings in tax jurisdictions, enacted tax laws, the resolution of tax audits, the timing and amount of foreign dividends, state and local taxes, the ratio of permanent items to pretax book income, and the implementation of various global tax strategies as well as other factors.

Net Earnings

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Net Earnings | \$88,691 | \$74,271 | \$243,870 | \$243,755 |
| Diluted earnings per share | \$0.80 | \$0.65 | \$2.17 | \$2.13 |

Three Months

We estimate that translational FX decreased earnings per share by approximately 1 cent in the three months ended April 30, 2014 when compared to the three months ended April 30, 2013. The decrease in share count increased

diluted earnings per share by approximately 1 cent.

Nine Months

We estimate that translational FX decreased earnings per share by approximately 7 cents in the nine months ended April 30, 2014 when compared to the nine months ended April 30, 2013. The decrease in share count increased diluted earnings per share by approximately 4 cents.

RESULTS FROM DISCONTINUED OPERATIONS

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|-----------------|-------------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Sales | \$— | \$344 | \$— | \$8,867 |
| Net Earnings | \$— | \$(1,206) | \$— | \$245,552 |
| Diluted Earnings per share | \$— | \$(0.01) | \$— | \$2.15 |

Net earnings in the nine months ended April 30, 2013 reflects the gain on the sale of the Blood Product Line. More details regarding discontinued operations can be found in Note 16, Discontinued Operations, to the accompanying condensed consolidated financial statements.

SEGMENT REVIEW

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Sales: | | | | |
| Life Sciences | \$368,835 | \$326,097 | \$1,041,011 | \$955,230 |
| Industrial | 313,610 | 315,093 | 948,182 | 976,015 |
| Total | \$682,445 | \$641,190 | \$1,989,193 | \$1,931,245 |
| Segment profit: | | | | |
| Life Sciences segment profit | \$88,339 | \$81,195 | \$252,240 | \$233,514 |
| Industrial segment profit | 49,350 | 45,853 | 146,723 | 146,723 |
| Total segment profit | 137,689 | 127,048 | 398,963 | 380,237 |
| Corporate Services Group | 17,304 | 15,172 | 48,034 | 47,263 |
| ROTC | 11,542 | 12,824 | 29,910 | 21,497 |
| Interest expense, net | 4,747 | 5,298 | 15,919 | 10,747 |
| Earnings before income taxes from continuing operations | \$104,096 | \$93,754 | \$305,100 | \$300,730 |

Life Sciences

| | Three Months Ended | | | | Nine Months Ended | | | |
|----------------|--------------------|---------------|-----------------|---------------|-------------------|---------------|-----------------|---------------|
| | Apr 30, 2014 | % of Sales | Apr 30, 2013 | % of Sales | Apr 30, 2014 | % of Sales | Apr 30, 2013 | % of Sales |
| Sales | \$368,835 | | \$326,097 | | \$1,041,011 | | \$955,230 | |
| Cost of sales | 166,394 | 45.1 | 138,473 | 42.5 | 456,428 | 43.8 | 399,516 | 41.8 |
| Gross margin | 202,441 | 54.9 | 187,624 | 57.5 | 584,583 | 56.2 | 555,714 | 58.2 |
| SG&A | 97,391 | 26.4 | 91,897 | 28.2 | 284,441 | 27.3 | 277,216 | 29.0 |
| R&D | 16,711 | 4.5 | 14,532 | 4.5 | 47,902 | 4.6 | 44,984 | 4.7 |
| Segment profit | \$88,339 | 24.0 | \$81,195 | 24.9 | \$252,240 | 24.2 | \$233,514 | 24.4 |

| SALES: | Three Months Ended | | Nine Months Ended | |
|---------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| By Market and Product | | | | |
| BioPharmaceuticals | \$235,724 | \$208,219 | \$650,467 | \$597,117 |
| Food & Beverage | 46,097 | 43,436 | 133,720 | 130,269 |
| Medical | 56,212 | 53,705 | 168,589 | 154,579 |
| Total Consumables sales | \$338,033 | \$305,360 | \$952,776 | \$881,965 |
| Systems Sales | 30,802 | 20,737 | 88,235 | 73,265 |
| Total Life Sciences Sales | \$368,835 | \$326,097 | \$1,041,011 | \$955,230 |
| By Region | | | | |
| Americas | \$108,612 | \$101,994 | \$308,701 | \$303,810 |
| Europe | 188,073 | 162,284 | 536,828 | 465,309 |
| Asia | 72,150 | 61,819 | 195,482 | 186,111 |
| Total Life Sciences Sales | \$368,835 | \$326,097 | \$1,041,011 | \$955,230 |

Edgar Filing: PALL CORP - Form 10-Q

The percentage change in sales for the three and nine months ended April 30, 2014 compared to the three and nine months ended April 30, 2013, with and without the impact of translational FX, are presented below:

| SALES % CHANGE | Three Months | | | Nine Months | | |
|------------------------------|--|---------------------|-------------------|--|---------------------|-------------------|
| | % Change excluding translational FX | Translational FX | Total % Change | % Change excluding translational FX | Translational FX | Total % Change |
| By Market and Product | | | | | | |
| BioPharmaceuticals | 12.0 | 1.2 | 13.2 | 8.9 | — | 8.9 |
| Food & Beverage | 8.4 | (2.3 |) 6.1 | 4.6 | (2.0 |) 2.6 |
| Medical | 2.9 | 1.8 | 4.7 | 8.4 | 0.7 | 9.1 |
| Total Consumables sales | 9.9 | 0.8 | 10.7 | 8.2 | (0.2 |) 8.0 |
| Systems Sales | 48.0 | 0.5 | 48.5 | 21.1 | (0.7 |) 20.4 |
| Total Life Sciences Sales | 12.3 | 0.8 | 13.1 | 9.2 | (0.2 |) 9.0 |
| By Region | | | | | | |
| Americas | 9.3 | (2.8 |) 6.5 | 3.7 | (2.1 |) 1.6 |
| Europe | 10.1 | 5.8 | 15.9 | 10.9 | 4.5 | 15.4 |
| Asia | 23.2 | (6.5 |) 16.7 | 13.7 | (8.7 |) 5.0 |
| Total Life Sciences Sales | 12.3 | 0.8 | 13.1 | 9.2 | (0.2 |) 9.0 |

Three Months

The acquisitions of ATMI LifeSciences, Medistad and SoloHill contributed approximately 560 basis points to Life Sciences consumables sales growth compared to last year.

BioPharmaceuticals consumables sales growth reflect overall market strength, growth in single use systems and new products, augmented by acquisitions.

Food & Beverage consumables sales growth reflects strength in the Americas and Asia, partly offset by softness in beverage production in Europe.

Medical consumables sales growth reflects the impact of the acquisition of Medistad, partly offset by lower blood media sales.

Life Sciences systems sales growth reflects timing of capital spending by BioPharmaceuticals and Food & Beverage customers.

Life Sciences segment profit grew 8.8%. Translational FX had an immaterial impact on segment profit growth.

Segment profit margin decreased 90 basis points reflecting a decline in gross margin, partly offset by the benefit from increased leverage of fixed cost SG&A on a higher sales base. The 260 basis point decline in gross margin is primarily due to:

- certain low margin systems projects in the current quarter,
- unfavorable transactional FX (principally Yen related),
- a higher proportion of systems sales to total sales, which typically carry lower margins than consumables (systems sales comprised approximately 8% of total sales compared to 6% last year),
- lower gross margin rates from the Medistad and ATMI LifeSciences acquisitions, and
- a purchase accounting adjustment related to the step-up of acquired inventory that was sold in the period.

These factors were partly offset by the benefit of favorable pricing.

Nine Months

The acquisitions of ATMI LifeSciences, Medistad and SoloHill contributed approximately 320 basis points to Life Sciences consumables sales growth compared to last year.

BioPharmaceuticals consumables sales growth reflect overall market strength, particularly in Europe and Asia, growth in single use systems and new products, augmented by acquisitions.

Food & Beverage consumables sales growth (excluding translational FX) was driven by strength in the Americas and Asia.

Medical consumables sales growth reflects an increase in sales to OEMs, augmented by the acquisition of Medistad, and growth in the Hospital Critical Care market driven by water products. These factors were partly offset by lower blood media sales.

Life Sciences systems sales growth reflects timing of capital spending by BioPharmaceuticals and Food & Beverage customers.

Life Sciences segment profit grew 8.0%. Translational FX negatively impacted the segment profit growth by approximately 110 basis points. Segment profit margin decreased 20 basis points primarily reflecting a decline in gross margin partly offset by the benefit from increased leverage of fixed cost SG&A on a higher sales base. The 200 basis point decline in gross margin reflects the same factors as in the three months discussed above.

Industrial

| | Three Months Ended | | | | Nine Months Ended | | | |
|----------------|--------------------|---------------|-----------------|---------------|-------------------|---------------|-----------------|---------------|
| | Apr 30, 2014 | % of Sales | Apr 30, 2013 | % of Sales | Apr 30, 2014 | % of Sales | Apr 30, 2013 | % of Sales |
| Sales | \$ 313,610 | | \$ 315,093 | | \$ 948,182 | | \$ 976,015 | |
| Cost of sales | 167,977 | 53.6 | 168,638 | 53.5 | 514,718 | 54.3 | 528,604 | 54.2 |
| Gross margin | 145,633 | 46.4 | 146,455 | 46.5 | 433,464 | 45.7 | 447,411 | 45.8 |
| SG&A | 86,350 | 27.5 | 92,526 | 29.4 | 259,753 | 27.4 | 277,090 | 28.4 |
| R&D | 9,933 | 3.2 | 8,076 | 2.6 | 26,988 | 2.8 | 23,598 | 2.4 |
| Segment profit | \$ 49,350 | 15.7 | \$ 45,853 | 14.6 | \$ 146,723 | 15.5 | \$ 146,723 | 15.0 |

| SALES: | Three Months Ended | | Nine Months Ended | |
|-------------------------|--------------------|--------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| By Market and Product | | | | |
| Process Technologies | \$ 137,348 | \$ 139,711 | \$ 402,090 | \$ 432,826 |
| Aerospace | 54,088 | 61,466 | 166,181 | 177,954 |
| Microelectronics | 74,403 | 64,492 | 222,795 | 202,938 |
| Total Consumables sales | \$ 265,839 | \$ 265,669 | \$ 791,066 | \$ 813,718 |
| Systems Sales | 47,771 | 49,424 | 157,116 | 162,297 |
| Total Industrial Sales | \$ 313,610 | \$ 315,093 | \$ 948,182 | \$ 976,015 |
| By Region | | | | |
| Americas | \$ 107,087 | \$ 107,390 | \$ 315,505 | \$ 317,699 |
| Europe | 88,635 | 96,764 | 284,136 | 300,943 |
| Asia | 117,888 | 110,939 | 348,541 | 357,373 |
| Total Industrial Sales | \$ 313,610 | \$ 315,093 | \$ 948,182 | \$ 976,015 |

The percentage change in sales for the three and nine months ended April 30, 2014 compared to the three and nine months ended April 30, 2013, with and without the impact of translational FX, are presented below:

| SALES % CHANGE: | Three Months | | | Nine Months | | |
|------------------------------|--|---------------------|-------------------|--|---------------------|-------------------|
| | % Change excluding translational FX | Translational FX | Total % Change | % Change excluding translational FX | Translational FX | Total % Change |
| By Market and Product | | | | | | |
| Process Technologies | (0.4 |) (1.3 |) (1.7 |) (5.5 |) (1.6 |) (7.1 |
| Aerospace | (13.4 |) 1.4 | (12.0 |) (7.3 |) 0.7 | (6.6 |
| Microelectronics | 17.5 | (2.1 |) 15.4 | 15.1 | (5.3 |) 9.8 |
| Total Consumables sales | 1.0 | (0.9 |) 0.1 | (0.8 |) (2.0 |) (2.8 |
| Systems Sales | (1.8 |) (1.5 |) (3.3 |) (1.2 |) (2.0 |) (3.2 |
| Total Industrial Sales | 0.5 | (1.0 |) (0.5 |) (0.8 |) (2.1 |) (2.9 |
| By Region | | | | | | |
| Americas | 1.6 | (1.9 |) (0.3 |) 0.6 | (1.3 |) (0.7 |
| Europe | (12.4 |) 4.0 | (8.4 |) (8.5 |) 2.9 | (5.6 |
| Asia | 10.8 | (4.5 |) 6.3 | 4.3 | (6.8 |) (2.5 |
| Total Industrial Sales | 0.5 | (1.0 |) (0.5 |) (0.8 |) (2.1 |) (2.9 |

Three Months

Process Technologies consumables sales were flat (excluding translational FX). The sales results excluding translational FX by key submarkets are discussed below:

- Consumables sales in the Machinery & Equipment submarket, which represented close to 25% of total Industrial consumables sales in the quarter, increased approximately 5%. Growth was driven by the mobile OEM, automotive and in-plant sectors partly offset by continued weakness in the primary metals and mining sectors.

Consumables sales in the Fuels & Chemicals submarket, which represented almost 20% of total Industrial consumables sales in the quarter, were down 8% on low-entering backlog, some continued softness in emerging markets and tough comparables in Europe.

Consumables sales in the Power Generation submarket, which represented almost 10% of total Industrial consumables sales in the quarter, increased approximately 2% driven by growth in the nuclear and wind sectors in Asia.

Aerospace consumables sales decreased on declines in both Commercial and Military Aerospace sales. This is largely the result of timing of shipments, as well as a difficult comparative, as last year included large aftermarket sales and helicopter program shipments that did not repeat.

Microelectronics consumables sales growth reflect continued market strength and new business wins. Strong consumer tablet demand is also driving growth in the display and electronic component sectors.

The decrease in Industrial systems sales primarily reflects reduced capital spending in the Fuels & Chemicals submarket.

Industrial segment profit increased 7.6%, with translational FX negatively impacting segment profit growth by approximately 250 basis points. Excluding translational FX, segment profit grew 10.1% in spite of flat sales. Segment profit margin increased 110 basis points driven by a decline in SG&A of approximately 180 basis points that was primarily attributable to our structural cost improvement initiative, partly offset by increased R&D and a slight decline in gross margin. The 10 basis point decline in gross margin is primarily due to adverse translational FX (principally Yen and British Pound) largely offset by the impact of improved pricing and favorable customer mix.

Nine Months

Process Technologies consumables sales decreased about 6% (excluding translational FX). The sales results excluding transactional FX by key submarkets are discussed below:

Consumables sales in the Machinery & Equipment submarket, which represented a little over 20% of total Industrial consumables sales in the nine months, decreased 1% on weakness in primary metals and mining, partly offset by growth in the mobile OEM, automotive and in-plant sectors.

Consumables sales in the Fuels & Chemicals submarket, which represented almost 20% of total Industrial consumables sales in the nine months, were down about 11% on low-entering backlog and softness in emerging markets particularly China, Venezuela and Russia.

Consumables sales in the Power Generation submarket, which represented almost 10% of total Industrial consumables sales in the nine months, declined approximately 3% on market softness in Europe and the Americas, partly offset by growth in the nuclear and wind sectors in Asia.

Aerospace consumables sales decreased on declines in both Commercial and Military Aerospace sales. This is largely the result of timing of shipments, as well as a difficult comparative, as last year included large aftermarket sales and helicopter program shipments that did not repeat.

Microelectronics consumables sales were up in all three regions on continued market strength and new business wins. The decrease in Industrial systems sales primarily reflects timing of capital spending in the Fuels & Chemicals submarket.

Industrial segment profit was flat, with translational FX negatively impacting segment profit growth by approximately 470 basis points. Excluding translational FX, segment profit was up 4.7% on a sales decline of about 1%. Segment profit margin increased 50 basis points driven by a 100 basis point decline in SG&A that was primarily attributable to our structural cost improvement initiative, partly offset by increased R&D and a slight decline in gross margin.

Corporate Services Group

| | Three Months | | Nine Months | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Apr 30, 2014 | Apr 30, 2013 | Apr 30, 2014 | Apr 30, 2013 |
| Corporate Services Group expenses | \$ 17,304 | \$ 15,172 | \$ 48,034 | \$ 47,263 |
| % Change | 14.1 | | 1.6 | |

The increase in Corporate Services Group expenses in the three and nine months primarily reflects an increase in compensation related costs and professional fees.

Liquidity and Capital Resources

We utilize cash flow generated from operations and our commercial paper program to meet our short-term liquidity needs. We consider our cash balances, lines of credit and access to the commercial paper and other credit markets, along with the cash typically generated from operations, to be sufficient to meet our anticipated liquidity needs.

Our cash position, net of debt, was approximately \$101,800 at April 30, 2014, compared to \$299,200 at July 31, 2013, a decrease of \$197,400. The impact of translational FX increased net cash by about \$18,500. Excluding this impact, net cash decreased by \$215,900 reflecting an increase in gross debt of \$135,400, principally to fund share repurchase in the U.S and a decrease in cash and cash equivalents of \$80,500.

As of April 30, 2014, the amount of cash and cash equivalents held by foreign subsidiaries was \$849,895. Repatriation of cash held outside the U.S. could be subject to restrictions in the host countries as well as both local and U.S. taxes. However, we do not expect these to have a material effect on our overall liquidity.

We have a five-year \$1,200,000 unsecured senior revolving credit facility (the “Facility”) with a syndicate of banks, which expires on April 11, 2018. Borrowings under the Facility bear interest at either a variable rate based upon the London InterBank Offered Rate (U.S. Dollar, British Pound, Euro, Swiss Franc and Japanese Yen borrowings) or the European Union Banking Federation Rate (Euro borrowings) or at the prime rate of the Facility Agent (U.S. Dollar borrowing only). The Facility does not permit us to exceed a maximum consolidated leverage ratio of 3.5:1, based upon the trailing four quarters’ results. In addition, the Facility includes other covenants that under certain circumstances may restrict our ability to incur additional indebtedness, make investments and other restricted payments, enter into sale and leaseback transactions, create liens and sell assets. As of April 30, 2014, we did not have any outstanding borrowings under our Facility. As of April 30, 2014, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness.

As of April 30, 2014, we had approximately \$305,000 of outstanding commercial paper, which is recorded as notes payable in the current liability section of our accompanying condensed consolidated balance sheet. Commercial paper outstanding at April 30, 2014 carry interest rates ranging between 0.31% and 0.32% and maturities between 30 and 42 days. Commercial paper outstanding at any one time during the quarter had balances ranging from \$305,000 to \$470,000, carried interest rates ranging between 0.30% and 0.37% and original maturities between 22 and 90 days.

Cash Flow - Operating Activities

| | Nine Months Ended | |
|---|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Net cash provided by operating activities | \$ 342,164 | \$ 206,890 |
| Less capital expenditures | 50,301 | 66,387 |
| Free cash flow | \$ 291,863 | \$ 140,503 |

Nine Months ended April 30, 2014

The major items impacting net cash provided by operating activities include:

- net earnings from continuing operations of \$243,870;
- non-cash reconciling items in net earnings from continuing operations, such as depreciation and amortization of long-lived assets of \$84,716 and non-cash stock compensation of \$23,962; and
- payments related to our Structural Cost Improvement initiative of \$21,529.

Improved working capital management, particularly improvement in days sales outstanding, benefited net cash provided by operating activities in the nine months.

Nine Months ended April 30, 2013

The major items impacting net cash provided by operating activities include:

- net earnings from continuing operations of \$243,755;
- non-cash reconciling items in net earnings from continuing operations, such as depreciation and amortization of long-lived assets of \$79,481 and non-cash stock compensation of \$20,153;
- income tax and tax-related payments of approximately \$94,000 related to the settlement of, and deposits for, several years of U.S. tax audits and payments for the gain on the sale of the Blood Product Line; and
- payments related to our Structural Cost Improvement initiative of \$25,986.

Discontinued operations had an immaterial impact on net cash provided by operating activities in the period.

Free Cash Flow

We utilize free cash flow as one way to measure our current and future financial performance. Free cash flow is a non-GAAP financial measure and is not intended as an alternative measure of cash flow from operations as determined in accordance with GAAP. In addition, our calculation of free cash flow is not necessarily comparable to similar measures as calculated by other companies that do not use the same definition or implementation guidelines. The table above reconciles net cash provided by operating activities, inclusive of discontinued operations, to free cash flow.

The increase in free cash flow in the nine months ended April 30, 2014 compared to the nine months ended April 30, 2013 reflects the increase in net cash provided by operating activities and a decrease in capital expenditures.

Depreciation and Amortization

Depreciation expense and amortization expense are presented below:

| | Nine Months Ended | |
|----------------------------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Depreciation expense | \$69,938 | \$64,581 |
| Amortization expense | \$14,778 | \$14,900 |
| Cash Flow - Investing Activities | | |

| | Nine Months Ended | |
|--|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Net cash (used)/provided by investing activities | \$(242,610) | \$470,221 |
| Nine Months ended April 30, 2014 | | |

The most significant drivers of net cash used by investing activities were:

payments totaling \$195,262 related to the acquisitions of ATMI LifeSciences, Medistad and SoloHill, and capital expenditures of \$50,301.

Refer to the Overview section of the Management's Discussion and Analysis of Financial Condition and Results of Operations as well as to Note 17, Acquisitions, to the accompanying condensed consolidated financial statements for further detail on the acquisitions.

Nine Months ended April 30, 2013

The most significant drivers of net cash provided by investing activities include:

proceeds from the sale of assets of \$537,284, primarily related to the sale of our Blood Product Line, and capital expenditures of \$66,387, which partly offset the above.

Cash Flow - Financing Activities

| | Nine Months Ended | |
|---------------------------------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Net cash used by financing activities | \$(182,935) | \$(280,730) |

Share repurchases in the nine months ended April 30, 2014 and April 30, 2013, are presented below. For further information on the Company's share buyback programs, see Note 4, Treasury Stock, to the accompanying condensed consolidated financial statements.

| | Nine Months Ended | |
|-------------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Share repurchases | \$250,000 | \$250,000 |
| Number of shares | 3,056 | 3,971 |

In the three months ended October 31, 2013, we paid \$125,000 under an accelerated share repurchase agreement ("ASR"). Upon completion of the transaction, we received a total of 1,573 shares. In the three months ended January 31, 2014 we paid \$125,000 under another ASR agreement and upon completion of the transaction received 1,483 shares. See Note 4, Treasury Stock, to the accompanying condensed consolidated financial statements for further details.

We increased our quarterly dividend by 10% from 25 cents per share to 27.5 cents per share, effective with the dividend declared on September 24, 2013. Dividends paid in the nine months ended April 30, 2014 and April 30, 2013, are presented below:

| | Nine Months Ended | |
|------------------------------|-------------------|--------------|
| | Apr 30, 2014 | Apr 30, 2013 |
| Dividends paid | \$88,596 | \$80,197 |
| Dividends declared per share | \$0.825 | \$0.750 |
| Non-Cash Working Capital | | |

Non-cash working capital, which is defined as working capital excluding cash and cash equivalents, notes receivable, notes payable and the current portion of long-term debt, was approximately \$601,300 at April 30, 2014 as compared with \$554,500 at July 31, 2013. Excluding the impact of translational FX (discussed below), non-cash working capital increased approximately \$39,500 compared to July 31, 2013 principally reflecting the impact of acquisitions.

Our balance sheet is affected by spot exchange rates used to translate local currency amounts into U.S. Dollars. In comparing spot exchange rates at April 30, 2014 to those at July 31, 2013, the Euro and the British Pound have strengthened against the U.S. Dollar, and the Japanese Yen has weakened against the U.S. Dollar. The impact of translational FX, increased net inventory, net accounts receivable and other current assets by approximately \$5,500, \$7,100 and \$2,000, respectively, as compared to July 31, 2013. Additionally, the impact of translational FX increased accounts payable, accrued liabilities and income tax payable collectively by \$7,300. The combination of these translational FX impacts increased non-cash working capital by approximately \$7,300.

Derivatives

We manage certain financial exposures through a risk management program that includes the use of foreign exchange derivative financial instruments. Derivatives are executed with counterparties with a minimum credit rating of "A" by Standard and Poor's and "A2" by Moody's Investor Services, in accordance with our policies. We do not utilize derivative instruments for trading or speculative purposes.

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

The notional amount of foreign currency forward contracts entered into during the three and nine months ended April 30, 2014 was \$687,213 and 1,923,422, respectively. The notional amount of foreign currency forward contracts outstanding as of April 30, 2014 was \$512,733 of which \$106,161 are for cash flow hedges that cover monthly transactional exposures through May 2015. Our foreign currency balance sheet exposures resulted in the recognition of a loss within SG&A of approximately \$169 in the three months ended April 30, 2014, before the impact of the measures described above. Including the impact of our foreign exchange derivative instruments, the net recognition within SG&A was a loss of approximately \$776 in the three months ended April 30, 2014.

Adoption of New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which amended Accounting Standards Codification ("ASC") 220, "Comprehensive Income." The amended guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. generally accepted accounting principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures in the financial statements. The amended guidance does not change the current requirements for reporting net income or other comprehensive income. The adoption of this disclosure-only guidance did not have an impact on our condensed consolidated financial results.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued authoritative guidance which changes the criteria for a disposal of a component or a group of components of an entity to qualify as a discontinued operation. This revised guidance defines a discontinued operation as (i) a component of an entity or group of components that has been disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The guidance also requires expanded disclosures related to discontinued operations and added disclosure requirements for individually material disposal transactions that do not meet the discontinued operations criteria. This guidance becomes effective prospectively for our fiscal 2016 first quarter, with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available to be issued. We will apply this new guidance when it becomes effective. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

In July 2013, the FASB issued new accounting guidance which requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carry forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carry forwards that would be utilized, rather than only against carry forwards that are created by the unrecognized tax benefits. The new guidance is effective prospectively to all existing unrecognized tax benefits, but entities can choose to apply it retrospectively. The guidance will be effective for us in our first quarter of fiscal year 2015, with early adoption permitted. We are currently assessing the impact this guidance will have on our consolidated statements of financial position and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There is no material change in the market risk information disclosed in Item 7A of the 2013 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

There were no changes in the Company's internal control over financial reporting during the Company's third quarter of fiscal year 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

(In thousands)

As previously disclosed in the 2013 Form 10-K, the Company is subject to various regulatory proceedings and litigation, including with respect to various environmental matters. Reference is also made to Note 5, Contingencies and Commitments, to the accompanying condensed consolidated financial statements.

Environmental Matters:

The Company's condensed consolidated balance sheet at April 30, 2014 includes liabilities for environmental matters of approximately \$20,738, which relate primarily to the environmental proceedings discussed in the 2013 Form 10-K and Note 5, Contingencies and Commitments, to the accompanying condensed consolidated financial statements of this Form 10-Q. In the opinion of management, the Company is in substantial compliance with applicable environmental laws and its current accruals for environmental remediation are adequate. However, as regulatory standards under environmental laws are becoming increasingly stringent, there can be no assurance that future developments, additional information and experience gained will not cause the Company to incur material environmental liabilities or costs beyond those accrued in its condensed consolidated financial statements.

ITEM 1A. RISK FACTORS.

There is no material change in the risk factors reported in Item 1A of the 2013 Form 10-K. This report contains certain forward-looking statements that reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. For a description of these risks see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements and Risk Factors."

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) During the period covered by this report, the Company did not sell any of its equity securities that were not registered under the Securities Act of 1933, as amended.

(b) Not applicable.

(c) The following table provides information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” of shares of the Company’s common stock.

(In thousands, except per share data)

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number | Approximate |
|---------------------------------------|--|------------------------------------|--|---|
| | | | of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
| February 1, 2014 to February 28, 2014 | — | \$— | — | \$81,873 |
| March 1, 2014 to March 31, 2014 | — | — | — | 81,873 |
| April 1, 2014 to April 30, 2014 | 234 | 84.31 | 234 | 81,873 |
| Total | 234 | \$84.31 | 234 | |

As noted in Note 4, Treasury Stock, to the accompanying condensed consolidated financial statements, the board of directors authorized amounts to be used to purchase shares of common stock over time, as market and business conditions warrant. There is no time restriction on these authorizations. In September 2013, the Company entered (1) into an Accelerated Share Repurchase (“ASR”) agreement with a third-party financial institution to repurchase \$125,000 of the Company’s common stock. This transaction was completed in the second quarter of fiscal year 2014. Under the agreement, the Company paid \$125,000 to the financial institution. Upon completion of the transaction, the Company had received a total of 1,573 shares with an average price per share of \$79.45.

In December 2013, the Company entered into a second ASR agreement with a third-party financial institution to repurchase \$125,000 of the Company’s common stock. This transaction was completed in the third quarter of fiscal year 2014. Under the agreement, the Company paid \$125,000 to the financial institution. Upon completion of the transaction, the Company received a total of 1,483 shares with an average price per share of \$84.31.

ITEM 6. EXHIBITS.

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

SIGNATURES

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

Pall Corporation

June 2, 2014

/s/ AKHIL JOHRI
Akhil Johri
Chief Financial Officer

45

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|----------------|---|
| 3(i)* | Restated Certificate of Incorporation of the Registrant as amended through September 1, 2010, filed as Exhibit 3.1(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 2010. |
| 3(ii)* | By-Laws of the Registrant as amended through December 12, 2012, filed as Exhibit 3.1(i) to the Registrant's Current Report on Form 8-K filed on December 17, 2012. |
| 31.1† | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2† | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1† | Certification of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2† | Certification of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

* Incorporated herein by reference.

† Exhibit filed herewith.