

PALL CORP
Form 10-Q
December 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 October 31, 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 November 25, 2014 was 106,534,159.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

| | Oct 31, 2014 | Jul 31, 2014 |
|--|-----------------|--------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,001,481 | \$964,110 |
| Accounts receivable | 561,013 | 615,713 |
| Inventory | 401,524 | 404,878 |
| Other current assets | 156,855 | 152,522 |
| Total current assets | 2,120,873 | 2,137,223 |
| Property, plant and equipment | 773,373 | 805,327 |
| Goodwill | 485,548 | 491,462 |
| Intangible assets | 232,063 | 242,423 |
| Other non-current assets | 163,677 | 176,078 |
| Total assets | \$3,775,534 | \$3,852,513 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Notes payable | \$724,736 | \$424,943 |
| Accounts payable | 149,596 | 165,373 |
| Accrued liabilities | 280,432 | 328,397 |
| Income taxes payable | 68,678 | 60,775 |
| Current portion of long-term debt | 82,784 | 87,955 |
| Dividends payable | 32,593 | 30,203 |
| Total current liabilities | 1,338,819 | 1,097,646 |
| Long-term debt, net of current portion | 375,593 | 375,826 |
| Income taxes payable – non-current | 149,333 | 150,484 |
| Deferred taxes and other non-current liabilities | 61,064 | 67,303 |
| Other non-current liabilities | 255,884 | 265,897 |
| Total liabilities | 2,180,693 | 1,957,156 |
| Stockholders' equity: | | |
| Common stock, par value \$.10 per share | 12,796 | 12,796 |
| Capital in excess of par value | 297,167 | 327,301 |
| Retained earnings | 2,567,609 | 2,512,961 |
| Treasury stock, at cost | (1,191,017) | (942,780) |
| Accumulated other comprehensive income/(loss) | (91,714) | (14,921) |
| Total stockholders' equity | 1,594,841 | 1,895,357 |
| Total liabilities and stockholders' equity | \$3,775,534 | \$3,852,513 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended | |
|--|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Net sales | \$696,492 | \$629,779 |
| Cost of sales | 335,084 | 304,065 |
| Gross profit | 361,408 | 325,714 |
| Selling, general and administrative expenses | 202,656 | 194,884 |
| Research and development | 24,777 | 23,267 |
| Restructuring and other charges, net | 9,240 | 9,198 |
| Interest expense, net | 6,702 | 5,977 |
| Earnings from operations before income taxes | 118,033 | 92,388 |
| Provision for income taxes | 29,760 | 20,875 |
| Net earnings | \$88,273 | \$71,513 |
| Earnings per share: | | |
| Basic | \$0.82 | \$0.64 |
| Diluted | \$0.81 | \$0.63 |
| Dividends declared per share | \$0.305 | \$0.275 |
| Average shares outstanding: | | |
| Basic | 108,081 | 111,870 |
| Diluted | 109,219 | 113,135 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

| | Three Months Ended | |
|--|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Net earnings | \$88,273 | \$71,513 |
| Other comprehensive income/(loss), net of income taxes: | | |
| Foreign currency translation | (81,297) | 43,227 |
| Pension liability adjustment | 6,352 | (594) |
| Unrealized investment losses | (632) | (82) |
| Unrealized gains/(losses) on derivatives | (1,216) | 2,455 |
| Total other comprehensive income/(loss), net of income taxes | (76,793) | 45,006 |
| Comprehensive income | \$11,480 | \$116,519 |

See accompanying notes to condensed consolidated financial statements.

PALL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Three Months Ended | |
|--|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Operating Activities | | |
| Net cash provided by operating activities | \$ 114,537 | \$ 85,897 |
| Investing Activities | | |
| Capital expenditures | (10,408) | (18,915) |
| Acquisition of businesses, net of cash acquired | — | (1,460) |
| Purchases of retirement benefit assets | (17,592) | (4,693) |
| Proceeds from retirement benefit assets | 18,735 | 9,027 |
| Proceeds from sale of assets | 1,577 | 471 |
| Other | (2,587) | (1,685) |
| Net cash used by investing activities | (10,275) | (17,255) |
| Financing Activities | | |
| Notes payable | 299,793 | 90,007 |
| Dividends paid | (30,202) | (27,947) |
| Repayments of short-term debt | — | (3,927) |
| Repayments of long-term debt | (148) | (195) |
| Net proceeds from stock plans | 1,138 | 15,251 |
| Additions to deferred financing costs | (1,535) | — |
| Purchase of treasury stock | (300,000) | (125,000) |
| Excess tax benefits from stock-based compensation arrangements | 1,235 | 3,122 |
| Net cash used by financing activities | (29,719) | (48,689) |
| Effect of exchange rate changes on cash and cash equivalents | (37,172) | 11,137 |
| Net increase in cash and cash equivalents | 37,371 | 31,090 |
| Cash and cash equivalents at beginning of year | 964,110 | 936,886 |
| Cash and cash equivalents at end of period | \$ 1,001,481 | \$ 967,976 |
| Supplemental Disclosures | | |
| Interest paid | \$ 1,729 | \$ 1,175 |
| Income taxes paid (net of refunds) | 18,806 | 22,826 |

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, 2014 (“2014 Form 10-K”).

NOTE 2 – BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

| | Oct 31, 2014 | Jul 31, 2014 |
|--|-----------------|-----------------|
| Accounts receivable: | | |
| Billed | \$497,724 | \$556,928 |
| Unbilled | 76,182 | 72,681 |
| Total | 573,906 | 629,609 |
| Less: Allowances for doubtful accounts | (12,893) | (13,896) |
| | \$561,013 | \$615,713 |

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

| | Oct 31, 2014 | Jul 31, 2014 |
|---|-----------------|-----------------|
| Inventory: | | |
| Raw materials and components | \$125,167 | \$117,581 |
| Work-in-process | 106,758 | 112,824 |
| Finished goods | 169,599 | 174,473 |
| | \$401,524 | \$404,878 |
| | Oct 31, 2014 | Jul 31, 2014 |
| Property, plant and equipment: | | |
| Property, plant and equipment | \$1,737,370 | \$1,776,983 |
| Less: Accumulated depreciation and amortization | (963,997) | (971,656) |
| | \$773,373 | \$805,327 |

NOTE 3 – GOODWILL AND INTANGIBLE ASSETS

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

| | Life Sciences | Industrial | Total |
|--|------------------|------------|-----------|
| Balance at July 31, 2014 | \$269,758 | \$221,704 | \$491,462 |
| Acquisitions | — | 2,617 | 2,617 |
| Foreign currency translation | (6,987) | (1,544) | (8,531) |
| Balance at October 31, 2014 | \$262,771 | \$222,777 | \$485,548 |
| Increase in acquisitions primarily related to working capital adjustment for acquisition of Filter Specialists, Inc. | | | |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

Intangible assets consist of the following:

| October 31, 2014 | Gross | Accumulated Amortization | Net |
|-----------------------------------|-----------|-----------------------------|-----------|
| Patents and unpatented technology | \$163,125 | \$67,618 | \$95,507 |
| Customer-related intangibles | 162,679 | 36,506 | 126,173 |
| Trademarks | 16,763 | 7,379 | 9,384 |
| Other | 3,572 | 2,573 | 999 |
| | \$346,139 | \$114,076 | \$232,063 |

| July 31, 2014 | Gross | Accumulated Amortization | Net |
|-----------------------------------|-----------|-----------------------------|-----------|
| Patents and unpatented technology | \$165,727 | \$66,126 | \$99,601 |
| Customer-related intangibles | 165,759 | 33,845 | 131,914 |
| Trademarks | 16,971 | 7,130 | 9,841 |
| Other | 3,647 | 2,580 | 1,067 |
| | \$352,104 | \$109,681 | \$242,423 |

Amortization expense for intangible assets for the three months ended October 31, 2014 and October 31, 2013 was \$6,217 and \$4,724, respectively. Amortization expense is estimated to be approximately \$17,189 for the remainder of fiscal year 2015, \$22,087 in fiscal year 2016, \$21,799 in fiscal year 2017, \$21,660 in fiscal year 2018, \$19,443 in fiscal year 2019, and \$18,116 in fiscal year 2020.

NOTE 4 – TREASURY STOCK

The following table highlights the share repurchase authorizations in effect during fiscal year 2015:

| | Date of Authorization | | | Total |
|---|-----------------------|--------------|-------------|------------|
| | Jan 17, 2013 | Jul 17, 2014 | Oct 9, 2014 | |
| Amount available for repurchases as of July 31, 2014 | \$81,873 | \$600,000 | \$— | \$681,873 |
| New authorizations | — | — | 200,000 | 200,000 |
| Utilized | (81,873) | (218,127) | — | (300,000) |
| Amount available for repurchases as of October 31, 2014 | \$— | \$381,873 | \$200,000 | \$581,873 |

The Company's shares may be purchased over time as market and business conditions warrant. There is no time restriction on these authorizations. In August 2014, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with a third-party financial institution to repurchase \$300,000 of the Company's common stock. Under the agreement, the Company paid \$300,000 to the financial institution and received an initial delivery of approximately 3,056 shares at an aggregate cost of \$255,000, with an average price per share of \$83.43. These shares were included in treasury stock in the accompanying condensed balance sheet as of October 31, 2014. The remaining \$45,000 was included in additional paid in capital in the accompanying condensed balance sheet as of October 31, 2014. The transaction was completed in the second quarter of fiscal year 2015, with the Company receiving approximately 405 additional shares, at which time the \$45,000 initially included in additional paid in capital was reclassified to treasury stock. The final number of shares delivered upon settlement of the transaction was determined with reference to the average price of the Company's common stock over the term of the ASR agreement. During the three months ended October 31, 2014, 132 shares were issued under the Company's stock-based compensation plans. At October 31, 2014, the Company held 21,035 treasury shares.

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 5 – CONTINGENCIES AND COMMITMENTS

With respect to the matters described in Note 14, Contingencies and Commitments, to the Company's consolidated financial statements included in the Company's 2014 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 October 31, 2014 and July 31, 2014.

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 2014 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 2014 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

The Company's condensed consolidated balance sheet at October 31, 2014 includes liabilities for environmental matters of \$18,896 which relate primarily to the environmental proceedings discussed in the 2014 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.

NOTE 6 – RESTRUCTURING AND OTHER CHARGES, NET

The following tables summarize the restructuring and other charges ("ROTC") recorded in the three months ended October 31, 2014 and October 31, 2013:

| | Three Months Ended Oct 31, 2014 | | |
|---|---------------------------------|---------------------------------|---------|
| | Restructuring (1) | Other Charges/(Gains) (2) | Total |
| Severance benefits and other employment contract obligations | \$8,750 | \$ — | \$8,750 |
| Professional fees and other costs, net of receipt of insurance claim payments | 552 | 48 | 600 |
| Reversal of excess restructuring reserves | (110) |) — | (110) |
| | \$9,192 | \$ 48 | \$9,240 |
| Cash | \$9,192 | \$ 48 | \$9,240 |
| Non-cash | — | — | — |
| | \$9,192 | \$ 48 | \$9,240 |
| | Three Months Ended Oct 31, 2013 | | |
| | Restructuring (1) | Other Charges/(Gains) (2) | Total |
| Severance benefits and other employment contract obligations | \$3,115 | \$ 442 | \$3,557 |
| Professional fees and other costs, net of receipt of insurance claim payments | 1,243 | 142 | 1,385 |
| Loss on sale and impairment of assets, net | — | 160 | 160 |

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| | | | |
|---|---------|----------|---------|
| Environmental matters | — | 4,440 | 4,440 |
| Reversal of excess restructuring reserves | (344 |) — | (344) |
| | \$4,014 | \$ 5,184 | \$9,198 |
| Cash | \$4,014 | \$ 5,024 | \$9,038 |
| Non-cash | — | 160 | 160 |
| | \$4,014 | \$ 5,184 | \$9,198 |

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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 and global 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 months ended October 31, 2014 and October 31, 2013 primarily reflect the expenses incurred in connection with the Company’s structural cost improvement initiative as discussed above.

(2) Other Charges/(Gains):

Severance benefits and other employment contract obligations: In the three months ended October 31, 2013, the Company recorded charges related to certain employment contract obligations.

Environmental matters: In the three months ended October 31, 2013, the Company increased its previously established environmental reserve related to a matter in Pinellas Park, Florida.

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 July 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 July 31, 2013 | \$26,240 | \$1,473 | \$27,713 |
| Additions | 27,803 | 4,419 | 32,222 |
| Utilized | (26,178) | (4,596) | (30,774) |
| Reversal of excess reserves | (1,923) | (107) | (2,030) |
| Translation | 230 | 39 | 269 |
| Balance at July 31, 2014 | \$26,172 | \$1,228 | \$27,400 |
| Additions | 8,750 | 552 | 9,302 |
| Utilized | (8,161) | (513) | (8,674) |
| Reversal of excess reserves | (110) | — | (110) |
| Translation | (1,029) | (43) | (1,072) |
| Balance at October 31, 2014 | \$25,622 | \$1,224 | \$26,846 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 7 – INCOME TAXES

The Company's effective tax rates for the three months ended October 31, 2014 and October 31, 2013 were 25.2% and 22.6%, respectively. For the three months ended October 31, 2014 and October 31, 2013, the effective tax rate varied from the U.S. federal statutory rate primarily due to the benefits of foreign operations.

At October 31, 2014 and July 31, 2014, the Company had gross unrecognized income tax benefits of \$197,611 and \$202,564, respectively. During the three months ended October 31, 2014, the amount of gross unrecognized tax benefits decreased by \$4,953, primarily due to the recognition of a tax position taken in a prior year and the impact of foreign currency translation partially offset by tax positions taken during the current period. As of October 31, 2014, the amount of net unrecognized income tax benefits that, if recognized, would impact the effective tax rate was \$160,421.

At October 31, 2014 and July 31, 2014, the Company had liabilities of \$15,546 and \$14,556, respectively, for potential payment of interest and penalties.

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 \$44,850.

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 | |
| | Oct 31, 2014 | Oct 31, 2013 | Oct 31, 2014 | Oct 31, 2013 | Oct 31, 2014 | Oct 31, 2013 |
| Service cost | \$2,589 | \$2,170 | \$955 | \$996 | \$3,544 | \$3,166 |
| Interest cost | 2,896 | 3,028 | 3,988 | 4,204 | 6,884 | 7,232 |
| Expected return on plan assets | (2,483) | (2,325) | (3,844) | (3,438) | (6,327) | (5,763) |
| Amortization of prior service cost/(credit) | 365 | 395 | 1 | (11) | 366 | 384 |
| Amortization of actuarial loss | 1,019 | 1,344 | 1,374 | 1,386 | 2,393 | 2,730 |
| Net periodic benefit cost | \$4,386 | \$4,612 | \$2,474 | \$3,137 | \$6,860 | \$7,749 |

NOTE 9 – STOCK-BASED PAYMENT

The Company currently has three stock-based employee and director compensation plans — the Pall Corporation 2012 Stock Compensation Plan, under which the Company may grant stock options, restricted shares, restricted units, performance shares, and performance units; the Management Stock Purchase Plan (“MSPP”); and the Employee Stock Purchase Plan (“ESPP”). These three plans are more fully described in Note 15, Common Stock, to the consolidated financial statements included in the 2014 Form 10-K.

The detailed components of stock-based compensation expense recorded in the condensed consolidated statements of earnings for the three months ended October 31, 2014 and October 31, 2013 are reflected in the table below:

| | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Restricted stock units | \$8,223 | \$4,193 |
| Stock options | 1,954 | 1,521 |
| MSPP | 1,065 | 192 |
| ESPP | 274 | 225 |
| | \$11,516 | \$6,131 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

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, 482 and 529 were not included in the computation of diluted shares for the three months ended October 31, 2014 and October 31, 2013, respectively, because their effect would have been antidilutive. The following is a reconciliation between basic shares outstanding and diluted shares outstanding:

| | Three Months Ended | |
|----------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Basic shares outstanding | 108,081 | 111,870 |
| Effect of stock plans | 1,138 | 1,265 |
| Diluted shares outstanding | 109,219 | 113,135 |

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.

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 October 31, 2014:

| | Fair Value Measurements | | | |
|---|-------------------------|---------|---------|---------|
| | As of Oct 31, 2014 | Level 1 | Level 2 | Level 3 |
| Financial Assets Carried at Fair Value | | | | |
| Money market funds | \$4,507 | \$4,507 | \$— | \$— |
| Available-for-sale securities: | | | | |
| Equity securities | 3,942 | 3,942 | — | — |
| Debt securities: | | | | |
| Corporate | 29,611 | — | 29,611 | — |
| U.S. Treasury | 9,689 | — | 9,689 | — |
| Federal agency | 12,719 | — | 12,719 | — |
| Mortgage-backed | 11,886 | — | 11,886 | — |
| Trading securities | 796 | 796 | — | — |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 4,835 | — | 4,835 | — |
| Financial Liabilities Carried at Fair Value | | | | |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 1,751 | — | 1,751 | — |

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, 2014:

| | Fair Value Measurements | | | |
|---|-------------------------|---------|---------|---------|
| | As of Jul 31, 2014 | Level 1 | Level 2 | Level 3 |
| Financial Assets Carried at Fair Value | | | | |
| Money market funds | \$4,860 | \$4,860 | \$— | \$— |
| Available-for-sale securities: | | | | |
| Equity securities | 4,748 | 4,748 | — | — |
| Debt securities: | | | | |
| Corporate | 30,243 | — | 30,243 | — |
| U.S. Treasury | 9,724 | — | 9,724 | — |
| Federal agency | 13,719 | — | 13,719 | — |
| Mortgage-backed | 11,405 | — | 11,405 | — |
| Trading securities | 819 | 819 | — | — |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 5,931 | — | 5,931 | — |
| Financial Liabilities Carried at Fair Value | | | | |
| Derivative financial instruments: | | | | |
| Foreign exchange forward contracts | 1,726 | — | 1,726 | — |

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.

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 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.

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 October 31, 2014 range from 2014 to 2046.

| October 31, 2014 | Cost/Amortized Cost Basis | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Net Unrealized Holding Gains/(Losses) |
|-------------------|------------------------------|------------|---|--|--|
| Equity securities | \$ 3,769 | \$3,942 | \$173 | \$— | \$173 |
| Debt securities: | | | | | |
| Corporate | 28,569 | 29,611 | 1,066 | (24 |) 1,042 |
| U.S. Treasury | 9,476 | 9,689 | 220 | (7 |) 213 |
| Federal agency | 11,896 | 12,719 | 823 | — | 823 |
| Mortgage-backed | 11,770 | 11,886 | 127 | (11 |) 116 |
| | \$ 65,480 | \$67,847 | \$2,409 | \$(42 |) \$2,367 |
| July 31, 2014 | Cost/Amortized Cost Basis | Fair Value | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Net Unrealized Holding Gains/(Losses) |
| Equity securities | \$ 4,160 | \$4,748 | \$588 | \$— | \$588 |
| Debt securities: | | | | | |
| Corporate | 28,987 | 30,243 | 1,259 | (3 |) 1,256 |
| U.S. Treasury | 9,478 | 9,724 | 246 | — | 246 |
| Federal agency | 12,778 | 13,719 | 941 | — | 941 |
| Mortgage-backed | 11,219 | 11,405 | 190 | (4 |) 186 |
| | \$ 66,622 | \$69,839 | \$3,224 | \$(7 |) \$3,217 |

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:

| October 31, 2014 | 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 | | |
| Debt securities: | | | | | | |
| Corporate | \$5,038 | \$(24) | \$— | \$— | \$5,038 | \$(24) |
| U.S. Treasury | 3,026 | (7) | — | — | 3,026 | (7) |
| Mortgage-backed | 4,886 | (11) | — | — | 4,886 | (11) |
| | \$12,950 | \$(42) | \$— | \$— | \$12,950 | \$(42) |
| July 31, 2014 | 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 | | |
| Debt securities: | | | | | | |
| Corporate | \$3,384 | \$(3) | \$— | \$— | \$3,384 | \$(3) |
| Mortgage-backed | 1,919 | (4) | — | — | 1,919 | (4) |
| | \$5,303 | \$(7) | \$— | \$— | \$5,303 | \$(7) |

The following table shows the proceeds and gross gains and losses from the sale of available-for-sale and trading investments primarily related to the Company's benefits protection trust for the three months ended October 31, 2014 and October 31, 2013:

| | Three Months Ended | |
|--------------------------------|--------------------|--------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Proceeds from sales | \$16,056 | \$500 |
| Realized gross gains on sales | 58 | — |
| Realized gross losses on sales | 5 | 1 |

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.

| | Oct 31, 2014 | Jul 31, 2014 |
|--------------------------|--------------|--------------|
| Equity securities | \$796 | \$819 |
| Total trading securities | \$796 | \$819 |

The following table shows the net gains and losses recognized on trading securities for the three months ended October 31, 2014 and October 31, 2013:

| | Three Months Ended | |
|--|--------------------|--------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Gains/(losses), net recognized for securities held | \$(28) | \$16 |
| Gains/(losses), net recognized for securities sold | 1 | — |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

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 October 31, 2014, the Company had foreign currency forward contracts outstanding with notional amounts aggregating \$406,297, whose fair values were a net asset of \$3,084.

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 months ended October 31, 2014 was \$821,771. The notional amount of foreign currency forward contracts outstanding that were not designated as hedging instruments as of October 31, 2014 was \$315,289.

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 months ended October 31, 2014 was \$20,429. The notional amount of foreign currency forward contracts outstanding designated as hedging instruments as of October 31, 2014 was \$91,008 and covers certain monthly transactional exposures through November 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:

| October 31, 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 | \$3,626 | Other current liabilities | \$86 |
| Derivatives not designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$1,209 | Other current liabilities | \$1,665 |
| Total derivatives | | \$4,835 | | \$1,751 |
| Nonderivative instruments designated as hedging instruments | | | | |
| Net investment hedge | | | Current portion of Long-term debt | \$82,422 |
| July 31, 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 | \$4,755 | Other current liabilities | \$3 |
| Derivatives not designated as hedging instruments | | | | |
| Foreign exchange forward contracts | Other current assets | \$1,176 | Other current liabilities | \$1,723 |
| Total derivatives | | \$5,931 | | \$1,726 |
| Nonderivative instruments designated as hedging instruments | | | | |
| Net investment hedge | | | Current portion of Long-term debt | \$87,570 |

The amounts of the gains and losses related to the Company's derivative financial instruments designated as hedging instruments for the three months ended October 31, 2014 and October 31, 2013 are presented as follows:

| Derivatives in cash flow hedging relationships | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(a) | |
|--|---|---------------------------------|--|---|---------------------------------|
| | Three Months Ended Oct 31, 2014 | Three Months Ended Oct 31, 2013 | | Three Months Ended Oct 31, 2014 | Three Months Ended Oct 31, 2013 |
| | \$591 | \$1,821 | Net sales | \$560 | \$(1) |

Foreign exchange forward contracts

| | | | | | |
|-------------------|-------|---------------|---------|--------|---|
| | | Cost of sales | 1,091 | (820 |) |
| Total derivatives | \$591 | \$1,821 | \$1,651 | \$(821 |) |

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 months ended October 31, 2014 and October 31, 2013.

The amounts of the gains and losses related to the Company's derivative financial instruments not designated as hedging instruments for the three months ended October 31, 2014 and October 31, 2013 are presented as follows:

| Derivatives not designated as hedging relationships | Location of Gain or (Loss) | | Amount of Gain or (Loss) | |
|---|--|--|---------------------------------------|--------------|
| | Recognized in Earnings on Derivatives | | Recognized in Earnings on Derivatives | |
| | | | Three Months Ended | |
| | | | Oct 31, 2014 | Oct 31, 2013 |
| Foreign exchange forward contracts | Selling, general and administrative expenses | | \$(4,510 |) \$450 |

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 months ended October 31, 2014 and October 31, 2013 are presented as follows:

| Nonderivatives designated as hedging relationships | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) ^(b) | |
|--|---|--------------|--|---|--------------|
| | Three Months Ended | | | Three Months Ended | |
| | Oct 31, 2014 | Oct 31, 2013 | | Oct 31, 2014 | Oct 31, 2013 |
| Net investment hedge | \$3,295 | \$(441) | 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 months ended

October 31, 2014 and October 31, 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, 2014 | \$98,689 | \$(121,280) | \$ 2,880 | \$ 4,790 | \$(14,921) |
| Other comprehensive income/(loss) before reclassifications | (81,297) | — | (621) | 288 | (81,630) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 1,892 | (11) | (1,504) | 377 |
| Foreign exchange adjustments and other | — | 4,460 | — | — | 4,460 |
| Balance at October 31, 2014 | \$17,392 | \$(114,928) | \$ 2,248 | \$ 3,574 | \$(91,714) |
| Balance at July 31, 2013 | \$84,598 | \$(125,211) | \$ 2,123 | \$(2,302) | \$(40,792) |
| Other comprehensive income/(loss) before reclassifications | 43,227 | — | (119) | 1,648 | 44,756 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 2,149 | 37 | 807 | 2,993 |
| Foreign exchange adjustments and other | — | (2,743) | — | — | (2,743) |
| Balance at October 31, 2013 | \$127,825 | \$(125,805) | \$ 2,041 | \$ 153 | \$4,214 |

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 | | Affected Line Item in the |
|---|--------------------|-------------|-------------------------------------|
| | Oct 31, | Oct 31, | Condensed Consolidated |
| | 2014 | 2013 | Statement of Earnings |
| Defined benefit pension plan: | | | |
| Amortization of prior service cost | \$ (366) | \$ (384) | Note (a) |
| Recognized actuarial gain/(loss) | (2,393) | (2,730) | Note (a) |
| Total before tax | (2,759) | (3,114) | |
| Tax (expense)/benefit | 867 | 965 | |
| Net of tax | \$ (1,892) | \$ (2,149) | |
| Unrealized investment gains/(losses): | | | |
| Realized investment gain/(losses) | \$ 17 | \$ (57) | Selling, general and administrative |
| Tax (expense)/benefit | (6) | 20 | |
| Net of tax | \$ 11 | \$ (37) | |
| Unrealized gains/(losses) on derivatives: | | | |
| Foreign exchange forward contracts | \$ 560 | \$ (1) | Sales |
| Foreign exchange forward contracts | 1,091 | (820) | Cost of sales |
| Total before tax | 1,651 | (821) | |
| Tax (expense)/benefit | (147) | 14 | |
| Net of tax | \$ 1,504 | \$ (807) | |

(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).

NOTE 15 – SEGMENT INFORMATION

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

The following table presents sales and segment profit by business segment reconciled to earnings before income taxes for the three months ended October 31, 2014 and October 31, 2013.

| | Three Months Ended | |
|------------------------------|--------------------|------------|
| | Oct 31, | Oct 31, |
| | 2014 | 2013 |
| Sales: | | |
| Life Sciences | \$ 352,464 | \$ 318,946 |
| Industrial | 344,028 | 310,833 |
| Total | \$ 696,492 | \$ 629,779 |
| Segment Profit: | | |
| Life Sciences | \$ 86,480 | \$ 73,045 |
| Industrial | 64,232 | 50,482 |
| Total segment profit | 150,712 | 123,527 |
| Corporate Services Group | 16,737 | 15,964 |
| ROTC | 9,240 | 9,198 |
| Interest expense, net | 6,702 | 5,977 |
| Earnings before income taxes | \$ 118,033 | \$ 92,388 |

PALL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

(Unaudited)

NOTE 16 – ACQUISITIONS

2014 Acquisitions

During fiscal year 2014, the Company completed four acquisitions – in the first quarter, Medistad Holding BV (“Medistad”), a European manufacturing entity; in the second quarter, SoloHill Engineering, Inc. (“SoloHill”), a U.S. technology company; in the third quarter, the Life Sciences business of ATMI, Inc. (“ATMI LifeSciences”), a technology leader in the field of single-use bioprocess equipment and consumables for the biopharmaceutical and biotechnology industries; and in the fourth quarter, Filter Specialists, Inc. (“FSI”), a U.S. based worldwide supplier of filtration products and solutions.

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 for the SoloHill, ATMI LifeSciences, and FSI acquisitions, and will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

The results of operations for the 2014 acquisitions since their respective acquisition dates are included in the accompanying condensed consolidated financial statements. The results of operations for FSI are reported in the Industrial Segment, and the results of operations for ATMI LifeSciences, Medistad, and SoloHill are reported in the Life Sciences segment. The impact of the 2014 acquisitions was not material, individually or in the aggregate, to the company's condensed 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 three months ended October 31, 2014 and October 31, 2013.

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, 2014 ("2014 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 2014 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 for our products 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, such as the Foreign Corrupt Practices Act and the U.K. Bribery Act, and regulations and procurement policies and practices, including regulations on import-export control, may expose us to liability or impair our ability to compete in international markets; the impact of a significant disruption in, or breach in security of, our information technology systems or we fail to implement, manage or integrate new systems, software and technologies successfully; 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; our ability to successfully complete or integrate acquisitions; product defects and unanticipated use or inadequate disclosure with respect to our products; our ability to develop innovative and competitive new products; the impact of global and regional economic conditions and legislative 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 business relationships with key customers and suppliers; changes in product mix and product pricing, particularly with systems products and associated hardware and devices for our consumable filtration 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 initiative; 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; the impact of certain risks associated with potential labor disruptions; 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 \$18,000 and earnings per share by approximately 5 cents in the three months ended October 31, 2014 when compared to the three months ended October 31, 2013.

During fiscal year 2014, we completed four acquisitions – in the first quarter, Medistad Holding BV (“Medistad”), a European manufacturing entity; in the second quarter, SoloHill Engineering, Inc. (“SoloHill”), a U.S. technology company; in the third quarter, the Life Sciences business of ATMI, Inc. (“ATMI LifeSciences”), a technology leader in the field of single-use bioprocess equipment and consumables for the biopharmaceutical and biotechnology industries; and in the fourth quarter, Filter Specialists, Inc. (“FSI”), a U.S. based worldwide supplier of filtration products and solutions.

These acquisitions did not have a material impact on our results from operations or financial position. See Note 16, Acquisitions, to the accompanying condensed consolidated financial statements for further detail.

In the U.S., some of our workforce at our Cortland, New York facility are represented by the United Auto Workers (“UAW”). The employees covered under this collective bargaining agreement represent approximately 7% of our global consumables production capacity. Our contract with the UAW expired in April 2014 and we continue to operate during our negotiations. On November 19, 2014, we declared an impasse in negotiations and have implemented our last, best and final offer to the UAW. Depending on the course of implementation of our last, best and final offer, we could incur additional costs and/or experience work stoppages which could adversely affect our business operations through a loss of revenue and strained relationships with customers.

RESULTS FROM OPERATIONS

Net Sales

| By Segment (dollars in thousands) | Three Months Ended | |
|-----------------------------------|--------------------|--------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Life Sciences | \$352,464 | \$318,946 |
| Industrial | 344,028 | 310,833 |
| Total Sales | \$696,492 | \$629,779 |
| By Product (dollars in thousands) | Three Months Ended | |
| | Oct 31, 2014 | Oct 31, 2013 |
| Consumables | \$605,122 | \$550,669 |
| Systems | 91,370 | 79,110 |
| Total Sales | \$696,492 | \$629,779 |

The percentage change in sales for the three months ended October 31, 2014 compared to the three months ended October 31, 2013 by segment, with and without the impact of translational FX, are presented below:

| By Segment | Three Months % Change | | |
|---------------|----------------------------|--------------------|----------------|
| | Excluding Translational FX | Translational FX % | Total % Change |
| Life Sciences | 13.6 | (3.1) |) 10.5 |
| Industrial | 13.3 | (2.6) |) 10.7 |
| Total | 13.4 | (2.8) |) 10.6 |

The percentage change in sales for the three months ended October 31, 2014 compared to the three months ended October 31, 2013 by product, with and without the impact of translational FX, are presented below:

| By Product | Three Months | | |
|-------------|---------------|---------------|----------|
| | % Change | | |
| | Excluding | Translational | Total |
| | Translational | FX % | % Change |
| | FX | | |
| Consumables | 12.6 | (2.7) | 9.9 |
| Systems | 19.4 | (3.9) | 15.5 |
| Total | 13.4 | (2.8) | 10.6 |

Total sales increased approximately 13% (excluding translational FX) reflecting growth in the BioPharmaceuticals and Food & Beverage markets in the Life Sciences segment and in all markets in the Industrial segment, partly offset by a decline in the Medical market in the Life Sciences segment. Acquisitions contributed approximately 470 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 13% increase in consumables sales (excluding translational FX) reflects the same trend as total sales discussed above. Increased pricing contributed approximately \$2,900, or about 50 basis points, to consumables sales growth, reflecting increases in both segments.

The 19% increase in system sales (excluding translational FX) reflects timing of capital projects in both the Life Sciences and Industrial segments.

Gross Margin

| (dollars in thousands) | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Gross Profit | \$361,408 | \$325,714 |
| % of sales | 51.9 | 51.7 |
| % change | 11.0 | |

The increase in overall gross margin of 20 basis points primarily reflects the impact of the following factors:

- improved fixed cost leverage in our manufacturing facilities, and
- improved pricing.

These factors were partly offset by the impact of lower gross margin rates from acquisitions and unfavorable transactional FX (particularly the Pound/Euro relationship).

More details regarding gross margin can be found in the discussions under the section "Segment Review."

Selling, General and Administrative

| (dollars in thousands) | Three Months Ended | |
|-------------------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Selling, general and administrative | \$202,656 | \$194,884 |
| % of sales | 29.1 | 30.9 |
| % change | 4.0 | |

The decrease in selling, general and administrative expenses (“SG&A”) as a percent of sales of 180 basis points reflects savings generated by our structural cost improvement initiative and better fixed cost leverage, partly offset by inflationary increases in payroll and other costs.

Research & Development

| (dollars in thousands) | Three Months Ended | |
|--------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Research and development | \$24,777 | \$23,267 |
| % of sales | 3.6 | 3.7 |
| % change | 6.5 | |

The increase in research and development expenses (“R&D”), was primarily driven by spend related to our recent acquisitions.

Restructuring and Other Charges, Net

| (dollars in thousands) | Three Months Ended | |
|--------------------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Restructuring and other charges, net | \$9,240 | \$9,198 |

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 and global 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 now expected to generate \$125,000 in annualized cost savings (“targeted savings”) over a four year period, which will allow us to invest in resources where needed. Previously, the savings target was \$100,000 in annualized cost savings over a three year period. We achieved over 40% of the targeted savings by the end of fiscal year 2013 and about 30% in fiscal year 2014. We expect to achieve more than 20% of the targeted savings in fiscal year 2015 and the balance in fiscal year 2016. We expect to fund these restructuring activities with cash flows generated from operating activities.

Restructuring and other charges (“ROTC”) in the three months ended October 31, 2014 and October 31, 2013 primarily reflect the expenses incurred in connection with our structural cost improvement initiative, as discussed above, including severance costs of \$8,750 and \$3,115 in the three months ended October 31, 2014 and October 31, 2013, respectively. In addition, the three months ended October 31, 2013 includes an increase of \$4,440 to our previously established environmental reserves related to a matter in Pinellas Park, Florida.

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

| (dollars in thousands) | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Interest expense, net | \$6,702 | \$5,977 |

The increase in net interest expense of \$725 was primarily driven by an increase in income tax related interest expense.

Income Taxes

| (dollars in thousands) | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Income taxes | \$29,760 | \$20,875 |
| Effective tax rate (%) | 25.2 | 22.6 |

Excluding the impact of ROTC discussed above, the effective tax rate for the three months ended October 31, 2014 and October 31, 2013 would have been 23.8% and 22.2%, respectively. The effective tax rate for the three months ended October 31, 2014 was impacted by the expiration of certain tax extenders and unfavorable jurisdictional mix. We expect our effective tax rate for the full fiscal year 2015 to be approximately 23.0%, exclusive of the impact of ROTC and discrete items. The actual effective tax rate for the full fiscal year 2015 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

| (dollars in thousands, except per share data) | Three Months Ended | |
|---|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Net Earnings | \$88,273 | \$71,513 |
| Diluted earnings per share | \$0.81 | \$0.63 |

We estimate that translational FX decreased earnings per share by approximately 5 cents in the three months ended October 31, 2014 when compared to the three months ended October 31, 2013. The decrease in share count increased diluted earnings per share by approximately 3 cents.

SEGMENT REVIEW

| (dollars in thousands) | Three Months Ended | |
|------------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Sales: | | |
| Life Sciences | \$352,464 | \$318,946 |
| Industrial | 344,028 | 310,833 |
| Total | \$696,492 | \$629,779 |
| Segment profit: | | |
| Life Sciences segment profit | \$86,480 | \$73,045 |
| Industrial segment profit | 64,232 | 50,482 |
| Total segment profit | 150,712 | 123,527 |
| Corporate Services Group | 16,737 | 15,964 |
| ROTC | 9,240 | 9,198 |
| Interest expense, net | 6,702 | 5,977 |
| Earnings before income taxes | \$118,033 | \$92,388 |

Life Sciences

| (dollars in thousands) | Three Months Ended | | | |
|------------------------------|--------------------|---------------|--------------------|-----------------|
| | Oct 31, 2014 | % of Sales | Oct 31, 2013 | % of Sales |
| Sales | \$352,464 | | \$318,946 | |
| Cost of sales | 153,910 | 43.7 | 136,867 | 42.9 |
| Gross margin | 198,554 | 56.3 | 182,079 | 57.1 |
| SG&A | 97,171 | 27.6 | 94,091 | 29.5 |
| R&D | 14,903 | 4.2 | 14,943 | 4.7 |
| Segment profit | \$86,480 | 24.5 | \$73,045 | 22.9 |
| | | | Three Months Ended | |
| SALES (dollars in thousands) | | | Oct 31, 2014 | Oct 31, 2013 |
| By Market and Product | | | | |
| BioPharmaceuticals | | | \$226,605 | \$196,118 |
| Food & Beverage | | | 43,168 | 43,569 |
| Medical | | | 53,446 | 55,717 |
| Total Consumables sales | | | \$323,219 | \$295,404 |
| Systems Sales | | | 29,245 | 23,542 |
| Total Life Sciences Sales | | | \$352,464 | \$318,946 |
| By Region | | | | |
| Americas | | | \$107,657 | \$97,776 |
| Europe | | | 176,033 | 161,930 |
| Asia | | | 68,774 | 59,240 |
| Total Life Sciences Sales | | | \$352,464 | \$318,946 |

The percentage change in sales for the three months ended October 31, 2014 compared to the three months ended October 31, 2013, with and without the impact of translational FX, are presented below:

| SALES % CHANGE | Three Months | | | | |
|---------------------------|--------------|----------------------------------|-----------------------|-------------------|-------|
| | % Change | Excluding Translational FX | Translational FX % | Total % Change | |
| By Market and Product | | | | | |
| BioPharmaceuticals | 18.4 | (2.9 |) | 15.5 | |
| Food & Beverage | 3.9 | (4.8 |) | (0.9) | |
| Medical | (1.9 |) | (2.2 |) | (4.1) |
| Total Consumables sales | 12.4 | (3.0 |) | 9.4 | |
| Systems Sales | 27.6 | (3.4 |) | 24.2 | |
| Total Life Sciences sales | 13.6 | (3.1 |) | 10.5 | |
| By Region | | | | | |
| Americas | 11.9 | (1.8 |) | 10.1 | |
| Europe | 12.5 | (3.8 |) | 8.7 | |
| Asia | 19.2 | (3.1 |) | 16.1 | |
| Total Life Sciences sales | 13.6 | (3.1 |) | 10.5 | |

The acquisitions of ATMI LifeSciences and SoloHill contributed approximately 440 basis points to Life Sciences consumables sales growth compared to last year.

BioPharmaceuticals consumables sales growth (excluding translational FX) reflects overall market strength, growth in single use systems, the benefit of acquisitions and to some extent the timing of shipments.

Food & Beverage consumables sales growth (excluding translational FX) reflects strength in Latin America and Asia, partly offset by market softness in Europe.

Medical consumables sales decline (excluding translational FX) reflects lower blood media sales as well as the impact of a large OEM shipment in the first quarter of fiscal year 2014 that did not repeat in the current quarter.

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

Life Sciences segment profit grew 18%, with translational FX negatively impacting segment profit growth by approximately 600 basis points. Excluding translational FX, segment profit grew 24%. Segment profit margin increased 160 basis points reflecting a decline in SG&A of approximately 190 basis points and a decline in R&D of 50 basis points, partly offset by a 80 basis point decline in gross margin.

The decline in SG&A is primarily attributable to our structural cost improvement initiative and the benefit from increased leverage of fixed cost SG&A on a higher sales base. The 80 basis point decline in gross margin is primarily due to:

- lower gross margin rates from acquisitions, and
- unfavorable transactional FX (particularly the Pound/Euro relationship).

These factors were partly offset by improved fixed cost leverage in our manufacturing facilities and improved pricing.

Industrial

| (dollars in thousands) | Three Months Ended | | | |
|------------------------------|--------------------|------------|--------------------|-----------------|
| | Oct 31, 2014 | % of Sales | Oct 31, 2013 | % of Sales |
| Sales | \$344,028 | | \$310,833 | |
| Cost of sales | 181,174 | 52.7 | 167,198 | 53.8 |
| Gross margin | 162,854 | 47.3 | 143,635 | 46.2 |
| SG&A | 88,748 | 25.8 | 84,829 | 27.3 |
| R&D | 9,874 | 2.9 | 8,324 | 2.7 |
| Segment profit | \$64,232 | 18.7 | \$50,482 | 16.2 |
| | | | Three Months Ended | |
| SALES (dollars in thousands) | | | Oct 31, 2014 | Oct 31, 2013 |
| By Market and Product | | | | |
| Process Technologies | | | \$144,926 | \$125,078 |
| Aerospace | | | 61,811 | 58,771 |
| Microelectronics | | | 75,166 | 71,416 |
| Total Consumables sales | | | \$281,903 | \$255,265 |
| Systems Sales | | | 62,125 | 55,568 |
| Total Industrial Sales | | | \$344,028 | \$310,833 |
| By Region | | | | |
| Americas | | | \$124,937 | \$100,575 |
| Europe | | | 99,790 | 98,696 |
| Asia | | | 119,301 | 111,562 |
| Total Industrial Sales | | | \$344,028 | \$310,833 |

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The percentage change in sales for the three months ended October 31, 2014 compared to the three months ended October 31, 2013, with and without the impact of translational FX, are presented below:

| SALES % CHANGE | Three Months | | |
|-------------------------|----------------------------------|-----------------------|-------------------|
| | Excluding Translational FX | Translational FX % | Total % Change |
| By Market and Product | | | |
| Process Technologies | 19.0 | (3.1) | 15.9 |
| Aerospace | 5.7 | (0.5) | 5.2 |
| Microelectronics | 7.7 | (2.4) | 5.3 |
| Total Consumables sales | 12.8 | (2.4) | 10.4 |
| Systems Sales | 15.9 | (4.1) | 11.8 |
| Total Industrial Sales | 13.3 | (2.6) | 10.7 |
| By Region | | | |
| Americas | 25.6 | (1.4) | 24.2 |
| Europe | 5.2 | (4.1) | 1.1 |
| Asia | 9.4 | (2.5) | 6.9 |
| Total Industrial Sales | 13.3 | (2.6) | 10.7 |

The acquisition of FSI contributed approximately 670 basis points to Industrial consumables sales growth compared to last year.

Process Technologies consumables sales increased 19% (excluding translational FX). The sales results excluding translational 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 quarter, increased 18% primarily due to the impact of an acquisition, augmented by strength in Mobile OEM in the Americas. These factors were partly offset by weak market conditions in Europe and Asia.

Consumables sales in the Fuels & Chemicals submarket, which represented about 20% of total Industrial consumables sales in the quarter, increased about 29% driven by the impact of an acquisition, strong growth in Europe related to a large spares shipment and strong opening backlog as well as strength in Latin America.

Consumables sales in the Power Generation submarket, which represented less than 10% of total Industrial consumables sales in the quarter, were down slightly related to a decline in sales in the nuclear sector in Europe and the wind sector in Asia. These factors were largely offset by an increase in the Americas, where nuclear investment is driving growth.

Aerospace consumables sales increased on strength in Military OEM and helicopter program sales.

Microelectronics consumables sales growth reflects strength in Asia, particularly in E materials.

The increase in Industrial systems sales primarily reflects timing of capital spending in the Fuels & Chemicals submarket.

Industrial segment profit increased 27%, with translational FX negatively impacting segment profit growth by approximately 500 basis points. Excluding translational FX, segment profit grew 32%. Segment profit margin increased 250 basis points driven by a decline in SG&A of approximately 150 basis points and an increase in gross margin of 110 basis points, partly offset by an increase in R&D of 20 basis points.

The decline in SG&A is primarily attributable to our structural cost improvement initiative and the benefit from increased leverage of fixed cost SG&A on a higher sales base. The 110 basis point increase in gross margin reflects: improved fixed cost leverage in our manufacturing facilities, favorable end-market and customer mix, particularly Microelectronics and Fuels & Chemicals, and improved pricing.

These factors were partly offset by lower gross margin rates from the FSI acquisition, and unfavorable transactional FX (particularly the Pound/Euro relationship).

Corporate Services Group

| (dollars in thousands) | Three Months Ended | |
|-----------------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Corporate Services Group expenses | \$16,737 | \$15,964 |
| % Change | 4.8 | |

The increase in Corporate Services Group expenses primarily reflects an increase in compensation related costs.

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.

Net debt, was approximately \$181,600 at October 31, 2014, compared to a net cash position of approximately \$75,400 at July 31, 2014, a change of \$257,000. The components of the change in net cash/(debt) are presented below:

| (dollars in thousands) | As of Jul 31, 2014 | Increase/Decrease | Translational FX | As of Oct 31, 2014 |
|------------------------|-----------------------|-------------------|---------------------|-----------------------|
| Cash | \$964,110 | \$69,572 | \$(32,201) | \$1,001,481 |
| Debt | 888,724 | 299,666 | (5,277) | 1,183,113 |
| Net cash/(debt) | \$75,386 | \$(230,094) | \$(26,924) | \$(181,632) |

As of October 31, 2014, substantially all of our cash and cash equivalents was held by foreign subsidiaries.

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.

On April 11, 2013, we entered into a five-year \$1,200,000 unsecured senior revolving credit facility (the "2013 Facility") with a syndicate of banks, which was to mature on April 11, 2018. Borrowings under the 2013 Facility bore 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). During the three months ended October 31, 2014, we amended and extended the 2013 Facility to a five-year \$1,500,000 unsecured senior revolving credit facility with a syndicate of banks, which matures on August 11, 2019 (the "2015 Facility"). In connection with the 2015 Facility, we incurred deferred financing costs of \$1,535 which, in addition to the unamortized costs from the 2013 Facility, will be amortized to interest expense over the term of the 2015 Facility. The covenants for the 2015 Facility are the same as in the 2013 Facility.

The 2015 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 2015 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 October 31, 2014, we did not have any outstanding borrowings under the 2015 Facility. As of October 31, 2014, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness.

As of October 31, 2014, we had approximately \$725,000 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 October 31, 2014 carry interest rates ranging between 0.31% and 0.41% and maturities between 21 and 96 days. Commercial paper outstanding at any one time during the quarter had balances ranging from \$425,000 to \$1,185,000, carried interest rates ranging between 0.28% and 0.41% and original maturities between 13 and 96 days.

Cash Flow - Operating Activities

| (dollars in thousands) | Three Months Ended | |
|---|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Net cash provided by operating activities | \$ 114,537 | \$ 85,897 |
| Less capital expenditures | 10,408 | 18,915 |
| Free cash flow | \$ 104,129 | \$ 66,982 |

Three Months ended October 31, 2014

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

net earnings of \$88,273;

non-cash reconciling items in net earnings, such as depreciation and amortization of long-lived assets of \$30,598 and

non-cash stock compensation of \$11,516;

payments related to our Structural Cost Improvement initiative of \$8,674, and

annual performance based compensation payments.

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

Three Months ended October 31, 2013

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

net earnings of \$71,513;

non-cash reconciling items in net earnings, such as depreciation and amortization of long-lived assets of \$27,348 and

non-cash stock compensation of \$6,131;

payments related to our Structural Cost Improvement initiative of \$9,473; and

annual performance based compensation payments.

Improved working capital management also benefited net cash provided by operating activities in the quarter.

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 to free cash flow.

The increase in free cash flow in the three months ended October 31, 2014 compared to the three months ended October 31, 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:

| (dollars in thousands) | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | Oct 31, 2014 | Oct 31, 2013 |
| Depreciation expense | \$ 24,381 | \$ 22,624 |
| Amortization expense | \$ 6,217 | \$ 4,724 |

Cash Flow - Investing Activities

(dollars in thousands)

Net cash (used)/provided by investing activities

Three Months ended October 31, 2014

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

• capital expenditures of \$10,408.

Three Months ended October 31, 2013

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

• capital expenditures of \$18,915.

Cash Flow - Financing Activities

(dollars in thousands)

Net cash used by financing activities

Share repurchases in the three months ended October 31, 2014 and October 31, 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.

(dollars in thousands)

Share repurchases

Number of shares

In the three months ended October 31, 2014, we paid \$300,000 under an Accelerated Share Repurchase ("ASR") agreement and received an initial delivery of 3,056 shares. See Note 4, Treasury Stock, to the accompanying condensed consolidated financial statements for further details.

We increased our quarterly dividend by 11% from 27.5 cents per share to 30.5 cents per share, effective with the dividend declared on October 9, 2014. Dividends paid in the three months ended October 31, 2014 and October 31, 2013, are presented below:

(dollars in thousands, except per share data)

Dividends paid

Dividends declared per share

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 \$588,100 at October 31, 2014 as compared with \$588,400 at July 31, 2014. Excluding the impact of translational FX (discussed below), non-cash working capital increased approximately \$21,900 compared to July 31, 2014.

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 October 31, 2014 to those at July 31, 2014, the Euro, the British Pound and the Japanese Yen have weakened against the U.S. Dollar. The impact of translational FX, decreased net inventory, net accounts receivable and other current assets by approximately \$13,600, \$19,500 and \$4,300, respectively, as compared to July 31, 2014. Additionally, the impact of translational FX decreased accounts payable, accrued liabilities and income tax payable collectively by \$15,200. The combination of these translational FX impacts decreased non-cash working capital by approximately \$22,200.

Three Months Ended

Oct 31, 2014 Oct 31, 2013

\$(10,275) \$(17,255)

Three Months Ended

Oct 31, 2014 Oct 31, 2013

\$(29,719) \$(48,689)

Three Months Ended

Oct 31, Oct 31,

2014 2013

\$300,000 \$125,000

3,056 1,371

Three Months Ended

Oct 31, Oct 31,

2014 2013

\$30,202 \$27,947

\$0.305 \$0.275

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 months ended October 31, 2014 was \$842,200. The notional amount of foreign currency forward contracts outstanding as of October 31, 2014 was \$406,297 of which \$91,008 are for cash flow hedges that cover monthly transactional exposures through November 2015. Our foreign currency balance sheet exposures resulted in the recognition of a gain within SG&A of approximately \$5,427 in the three months ended October 31, 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 gain of approximately \$917 in the three months ended October 31, 2014.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB issued authoritative guidance which changes the criteria for 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 May 2014, the FASB issued new accounting guidance which supersedes the revenue recognition requirements in ASC 605, “Revenue Recognition.” The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The revised guidance requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will also result in enhanced revenue related disclosures. The guidance is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. We have not yet determined the impact this guidance will have on our consolidated financial results.

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 2014 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 first quarter of fiscal year 2015, 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 2014 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 October 31, 2014 includes liabilities for environmental matters of \$18,896, which relate primarily to the environmental proceedings discussed in the 2014 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 2014 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 of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|----------------------------------|------------------------------|--|--|
| August 1, 2014 to August 31, 2014 | 3,056 | \$83.43 | 3,056 | \$381,873 |
| September 1, 2014 to September 30, 2014 | — | — | — | 381,873 |
| October 1, 2014 to October 31, 2014 | — | — | — | 581,873 |
| Total | 3,056 | \$83.43 | 3,056 | |

(1) 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 August 2014, the Company entered into an Accelerated Share Repurchase ("ASR") agreement with a third-party financial institution to repurchase \$300,000 of the Company's common stock. Under the agreement, the Company paid \$300,000 to the financial institution and received an initial delivery of approximately 3,056 shares at an aggregate cost of \$255,000, with an average price per share of \$83.43. These shares were included in treasury stock in the accompanying condensed balance sheet as of October 31, 2014. The remaining \$45,000 was included in additional paid in capital in the accompanying condensed balance sheet as of October 31, 2014. The transaction was completed in the second quarter of fiscal year 2015, with the Company receiving approximately 405 additional shares, at which time the \$45,000 initially

included in additional paid in capital was reclassified to treasury stock. The final number of shares delivered upon settlement of the transaction was determined with reference to the average price of the Company's common stock over the term of the ASR agreement.

ITEM 6. EXHIBITS.

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

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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

December 2, 2014

/s/ AKHIL JOHRI
Akhil Johri
Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|----------------|---|
| 3.1(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. |
| 3.1(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. |
| 10.1†‡ | Form of Performance-Based Restricted Stock Unit Award Agreement Under Pall Corporation 2012 Stock Compensation Plan. |
| 31.1† | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2† | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1† | Certification of Chief Executive Officer 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.

‡ Denotes management contract or compensatory plan or arrangement.