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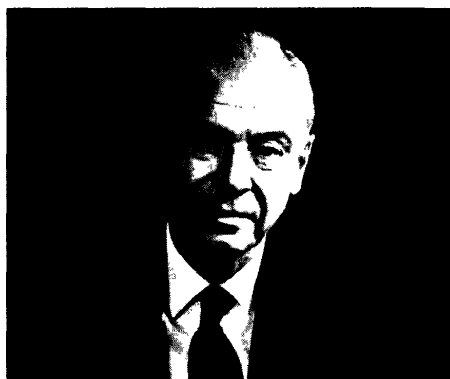
Annual Stockholders' Meeting
Monday, November 20, 1972, 2:30 P.M.
Harrison House of Glen Cove
Glen Cove, L.I., N.Y.

Cover Story

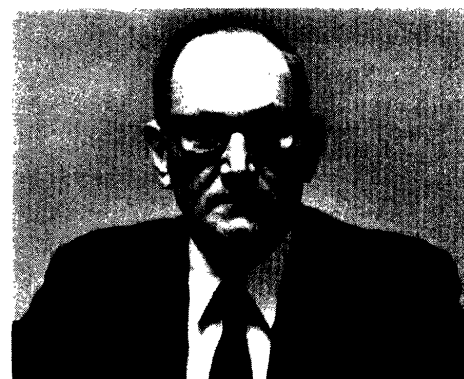
Our cover design symbolizes four major growth areas for Pall disposable, high performance filters. Two of these growth areas are in our present major markets: Process Industries and Aerospace. The other two are in newer markets: Fluid Power and Biomedical. Upper left—Hydraulic seismograph equipment protected by our 3 micron absolute Industrial Hydraulic filters. Upper right—Ultipor® bacteria removal filters in use in a pharmaceutical plant. Bottom—Aircraft engine with lube oil system protected by Ultipor Disposable Filters. Background—Microemboli removed from stored blood by Ultipor Blood Filter.

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6-23



David B. Pall, Chairman



Abraham Krasnoff, President

Fiscal Highlights for the years ended July 31

	1972	1971
Consolidated Net Sales	\$26,270,979	\$24,548,638
Earnings before Taxes on Income and Extraordinary Charges	\$ 621,561	\$ 558,553
Taxes on Income	\$ 266,600	\$ 264,156
Earnings before Extraordinary Charges	\$ 354,961	\$ 294,397
Per Average Share Outstanding	\$ 0.32	\$ 0.27
Extraordinary Charges (1971—\$0.31 per share)	—	\$ (342,544)
Earnings (Loss)	\$ 354,961	\$ (48,147)
Per Average Share Outstanding	\$ 0.32	\$ (0.04)
Depreciation and Amortization		
Deducted from Earnings	\$ 1,054,182	\$ 998,668
Cash Provided from Operations	\$ 1,409,143	\$ 1,293,065
Total Assets at End of Year	\$28,888,053	\$27,761,807
Gross Investment in Plant and Equipment	\$15,462,634	\$13,941,271
Working Capital	\$10,881,041	\$11,360,196
Stockholders' Equity	\$12,504,432	\$12,069,821
Average Shares Outstanding	1,104,388	1,100,958
Equity per Share	\$ 11.32	\$ 10.96

Note 1: The extraordinary charges in 1971 of \$342,544 (\$655,209 before taxes) consist of the cost of a plant relocation (\$353,000), a gain on the sale of an investment (\$49,353), and a loss on the sale of realty (\$38,897).

Among our 1,100 employees and approximately 5,000 shareholders are many who have joined us during the past year. For them, as well as for other interested readers, a review of the background, nature and new growth prospects of our business is in order.

Pall Corporation (originally named Micro Metallic Corporation) was formed in 1946 to manufacture Dr. David B. Pall's invention of a new filter medium—porous metals. The Corporation grew from a volume of \$35,000 in its first year to about \$3,000,000 in 1957, and became a public company that year. Subsequent to 1957, the Company grew very rapidly by a combination of intensified sales effort applied to earlier products and by new product development.

As the Company saw new opportunities, we formed new subsidiaries and divisions, and made some small acquisitions. The most successful of these served to expand product lines or geographic coverage in our basic field of fluid clarification. Others, which did not add to the Company's strength or basic thrust, were disposed of. We have now become, we believe, the most fully integrated of filter companies—from the development, design and production of a very wide range of filter media and elements through to housings and control devices.



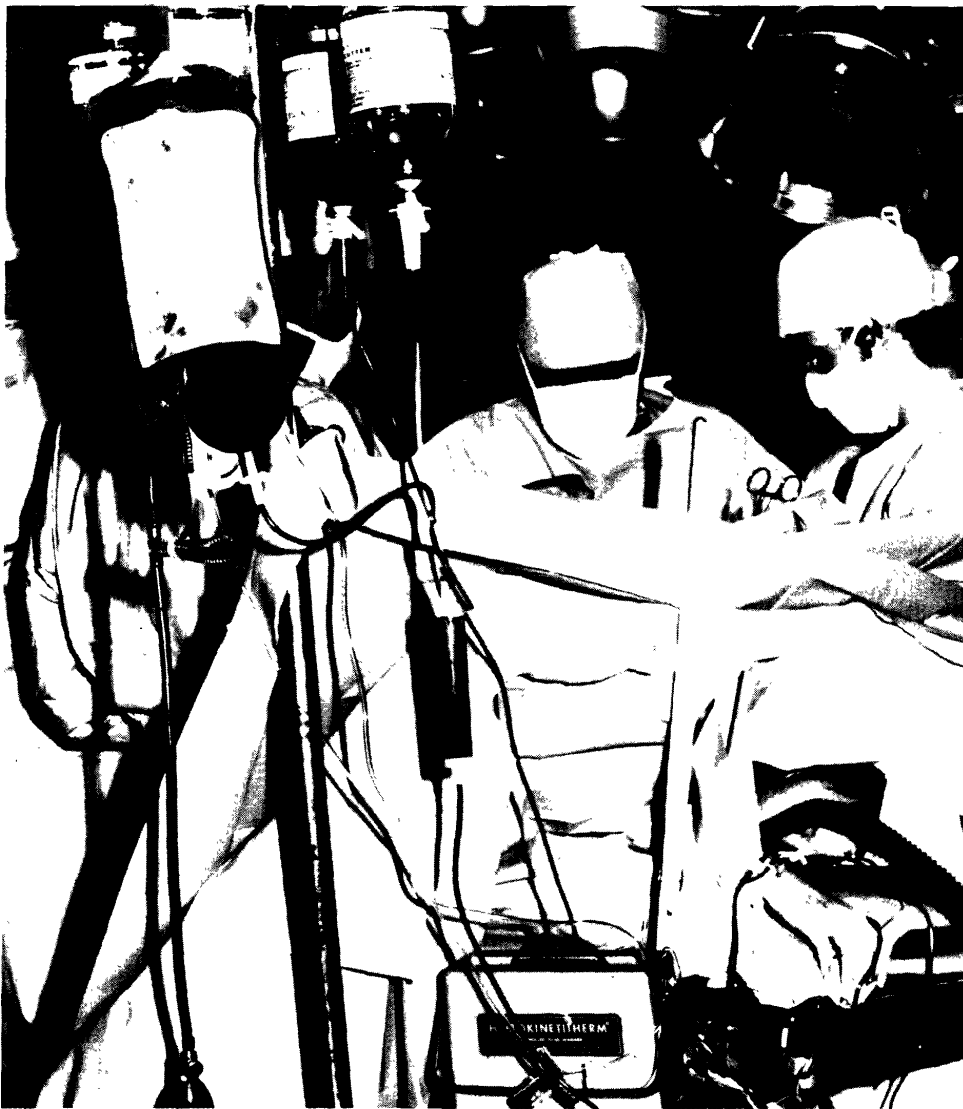
Development Of Ultrafine Disposable Filters

An important forward step was taken in the mid-sixties, when we moved vigorously into disposable ultrafine filtration. This found wide acceptance in many fields—ranging from purification of pharmaceuticals to protection of hydraulic components. As a result of this and similar developments applied to other aspects of fluid clarification, the Company became and is now generally acknowledged to be a technological leader in fine and ultrafine filtration.

Recognizing the dangers of excessive dependence on U.S. Government military aircraft budgets, we have for some time sought diversification through new product development and through acquisitions. The acquisition program succeeded partially. It did expand our marketing capability and product lines for fluid clarification for the chemical, pharmaceutical, petroleum, petrochemical, electric power, electronic and other processing industries. However, diversification attempts into municipal packaged sewage treatment plants and into areas other than

Liquid sterilization in a West German Plant

Pall's new, rugged bacteria grade filters are well suited for exacting sterilization processes. Shown in use on a bottle filling machine of a noted West German pharmaceutical plant, these filters offer a superior alternative to troublesome asbestos pads and expensive delicate membranes.

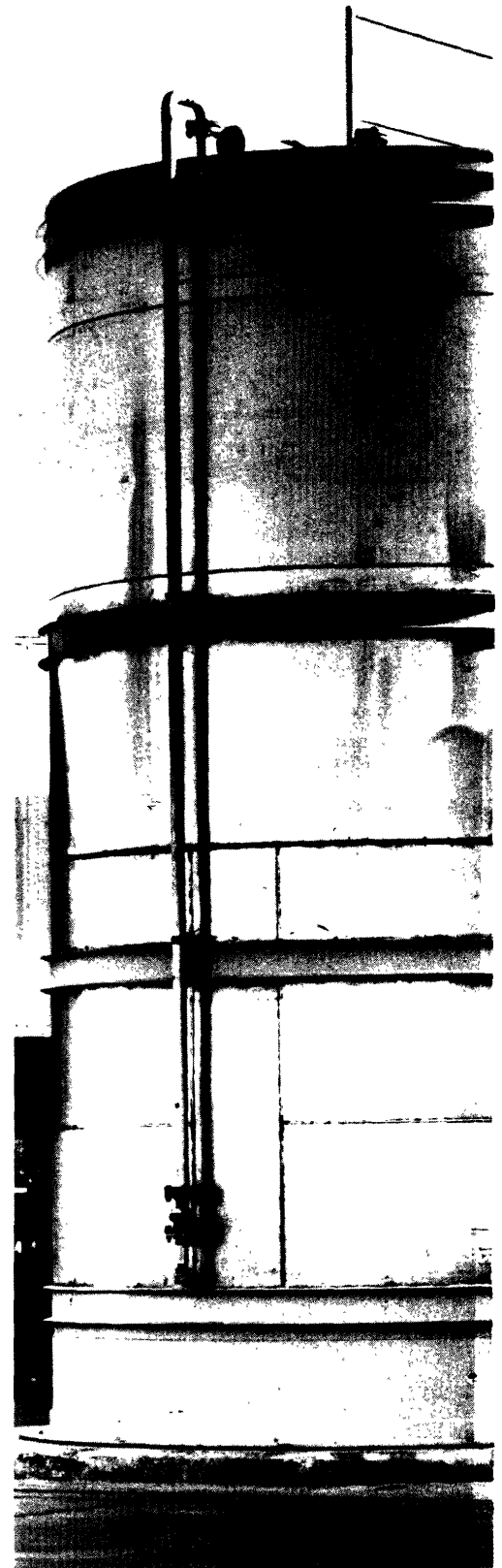


Blood filter removes harmful debris

Shortly before the end of fiscal year 1972 we introduced our blood transfusion filter. The filter, shown in use during surgery at Memorial Hospital, New York City, protects patients from serious lung damage—even death—caused by microemboli (small particles) introduced during massive transfusions.

Riker Laboratories uses bacteria removal filters

The pharmaceutical industry has major potential for Pall disposable, ultrafine filters. Riker Laboratories, Inc., a California drug producer, uses Pall Ultipor® bacteria removal filters to permit sterile storage of a large volume of pharmaceutical grade distilled water (pictured above). This eliminates production shutdowns, and reduces costs.



fluid clarification did not succeed, and generated losses which, along with very large market and product development expenditures, depressed earnings for a number of years.

Aiming For Larger Markets

Along with the development of disposable filters, a most important management decision was made. This was to convert the Company from dependence on the custom design of metal filters for limited special markets, to development of broad-based distribution of filters made of proprietary disposable filter media designed into standard packages for large markets. Our transition to this new corporate design began in fiscal 1969 and was substantially completed in 1972, the year of this report.

1969—For the first time in a decade, more than 50% of sales came from other than the U.S. aircraft industry. For the first time in many years, less than 50% of sales came directly or indirectly from the U.S. Government.

Also for the first time, 25% of sales was derived from disposable filters and their appurtenances. A number of new disposable filters were introduced.

1970—The important decision was made to dispose of operations with low growth records; also to dispose of those which do not advance our major direction of corporate development in fluid clarification in general, and in fine disposable filters in particular. Aerospace was further de-emphasized, and its overhead structure severely reduced, while its technological thrust was re-directed to develop new growth prospects in disposable filters.

A major long-term investment was committed to the very large but difficult to penetrate market of hydraulic filters for mobile equipment, machine tools and other industrial equipment.

This effort was later broadened to include pneumatic filters for the so-called "Fluid Power" market.

Our first biomedical product was introduced in this year.

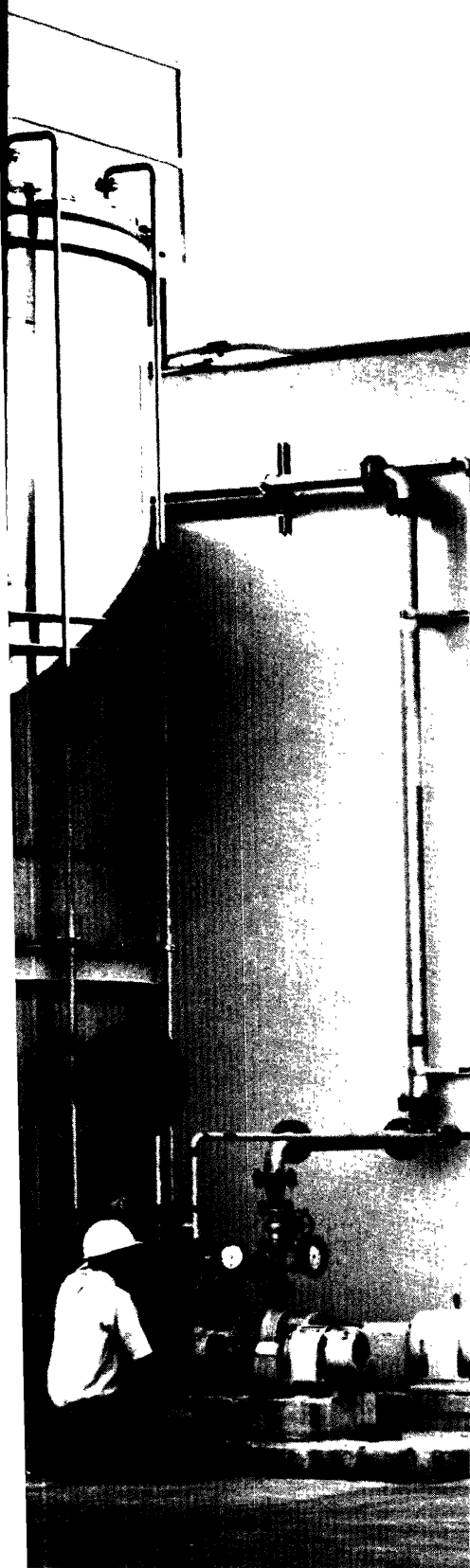
1971—Following the policies established in 1970, we disposed of our airborne air conditioning and heat exchange business (which had been acquired in 1964) and our U.S. temperature sensing product line (which had been acquired in 1961).

In a major move to enhance efficiency and reduce costs, we streamlined our principal U.S. aerospace filter operation, relocating it from Glen Cove, New York, to St. Petersburg, Florida.

In another decision of long-range importance, we decided to do our own introduction of certain biomedical products, in addition to setting up of distribution arrangements with other companies such as Johnson & Johnson and Airco's Ohio Medical Division.

1972—Continuing our disposition program, we sold our Mexican operation (organized in 1964) to a group including its President. It became our representative-licensee.

We also made important additions to and improvements in our disposable filter manufacturing facilities in the U.S. and Europe.



Concentration On Four Growth Areas

Four major growth areas for our disposable filters—in the smallest of which one million dollars of business was done in 1972—were scheduled for major marketing exploitation. Two of these areas are in our present major markets: Process Industries and Aerospace. The other two are in our newer markets: Fluid Power and Biomedical.

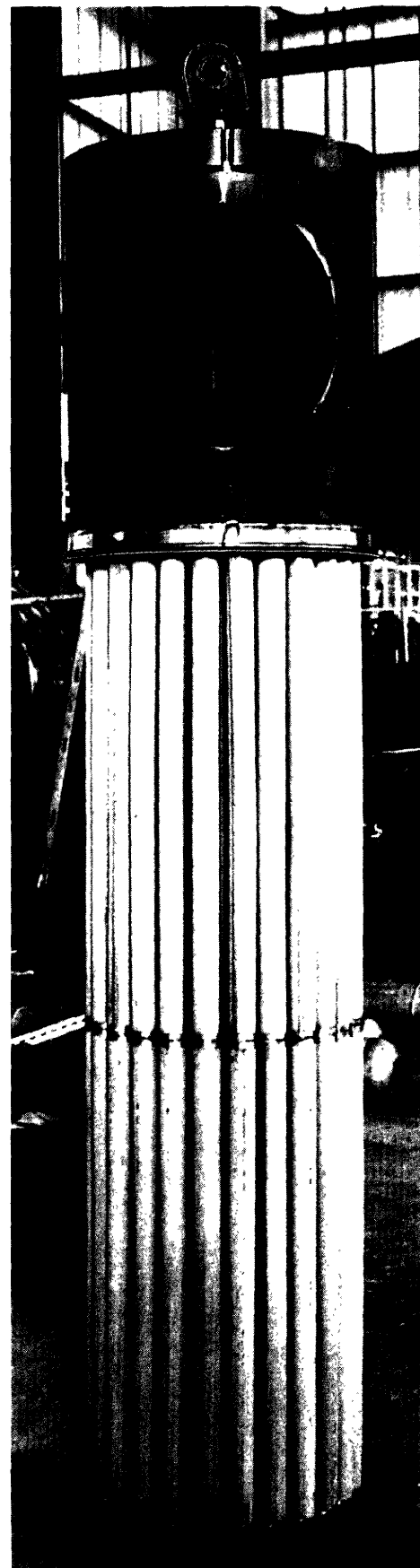
The Process Industry market includes the Chemical, Pharmaceutical, Electric Power (both fossil and nuclear fuel), Electronic Components, Petrochemical, Beverage and Cosmetic Industries. Our distribution—constantly being improved—is by direct sales in the major Middle Atlantic States area, in Southern California, in Canada and in Britain, Germany, Austria and Switzerland. Japan and Mexico are covered by representative-licensees, and the rest of the world (other than Eastern Europe) by distributors or manufacturers' representatives. Sales to Eastern Europe are direct—mainly through our German subsidiary.

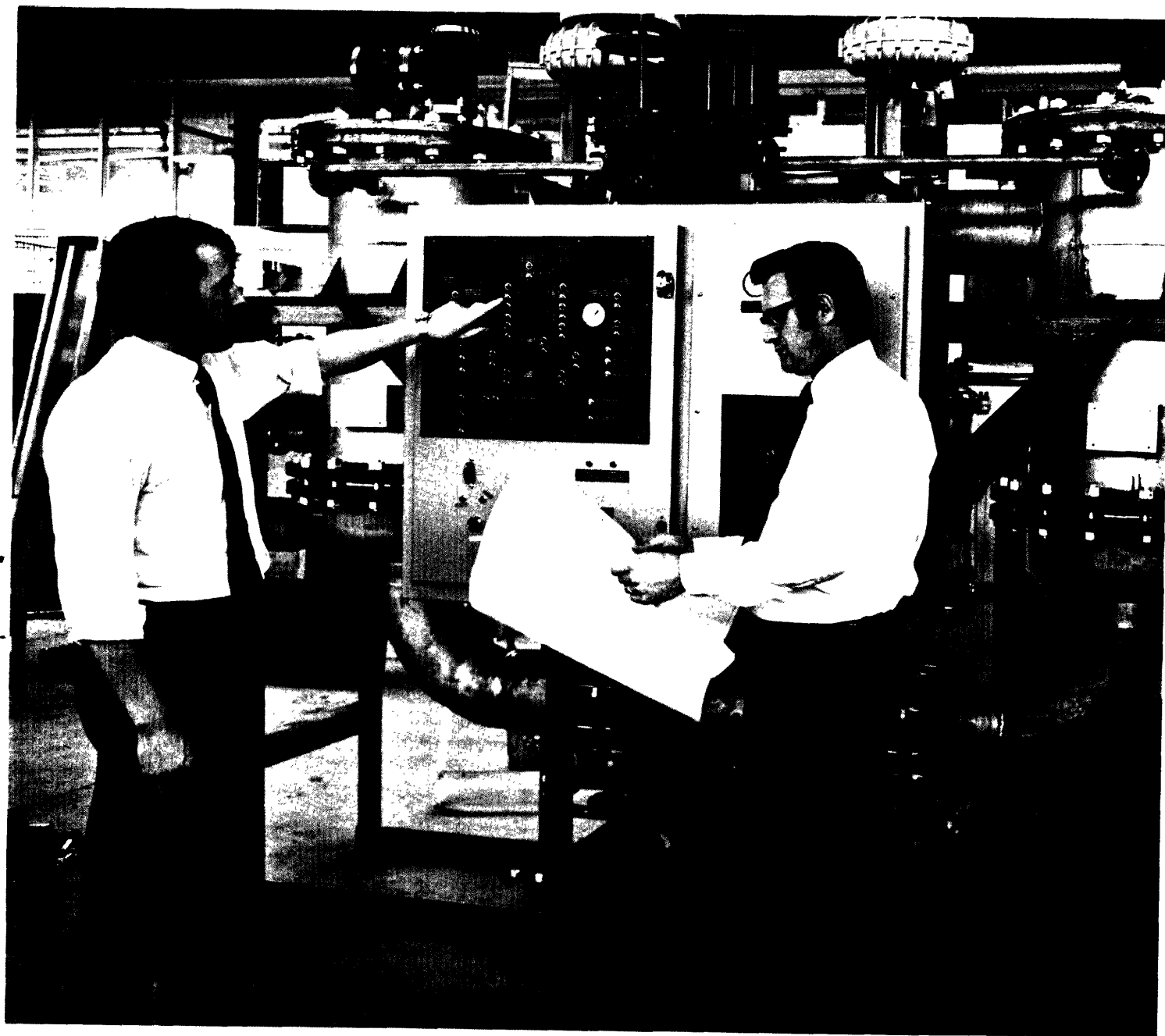
New Line Of Sterilizing Filters

A promising area for growth is our new AB (Absolute Bacteria) line of sterilizing filters for liquids and gases. A key product in this line, for liquid filtration, is our absolute 0.2 micron cartridge. This is the first product other than a membrane or a filter made of asbestos which is capable of this level of filtration. Asbestos, historically used for ultrafine filtration, is now suspected to be a carcinogen and is falling into disfavor. Membranes are both costly and delicate, while our new product is rugged, more easily used and less costly than membranes. We expect it to substantially increase our 1972 \$2.0 million share of an approximately \$20.0 million market. The AB filter line was in early stages of production in the U.S. and Europe, with dozens of customers testing or waiting for delivery, at our fiscal year-end.

Development Of Disposable Filters For Aircraft

Our experience in aircraft hydraulic oil filtration dates to the early '50's, when we helped to get the F-101, F-104, 707 and other aircraft flying by inventing the fairly fine sintered metal filter which was mentioned earlier. These filters introduced the new concept of absolute ratings (an absolute rating defines the maximum size of particle which can pass through a filter), to prevent jamming of hydraulic system components by metal "chips." We have since been the clear leader in this industry, which in the last five years has gone through a series of disastrous market conditions. We survived—but with some wounds—by careful cost control and by the introduction of new technology to the industry, so as to retain a major share of the business.





Porous stainless steel filter for nuclear power station

Pall cleanable metal filters are used to prevent radioactive contaminants from escaping from atomic power systems. Pictured above is a large porous stainless steel filter produced by our Portsmouth, England facility. Pall metal and disposable filters are used in many applications in the various types of atomic energy plants built in Britain, Canada and the United States.

Automated air sterilizing plant

This automated air sterilizing plant, designed for a customer in eastern Europe, is an example of Pall's advanced filtration technology. Our ability to produce reliable, bacteria-free fluids at lowest cost is an area of great growth potential. This is particularly true since traditionally used asbestos, now suspect as a carcinogen, is falling into disuse as a filter medium.

The world aircraft industry is now substantially committed to using our kind of absolute 3 and 5 micron (40 microns is about the size of particle which can be seen with the unaided eye) disposable hydraulic oil filters. Our earlier absolute types of metal filters prevent catastrophic failure; the newer much finer disposable filters in addition cut operating costs or extend time between overhauls. By virtue of this development, and of our excellent marketing in this industry, we remain the leader in hydraulic oil filtration.

During the last few years we have also introduced disposable fine filters (3 to 30 microns absolute) to aircraft lubrication systems. We believe that these lube oil filters have created a new market potential of \$8.0 to \$10.0 million per year and that the total potential market for disposable hydraulic, lube and other filters exceeds \$20.0 million per year. A number of competitors have developed or are developing similar disposable filter capability. Our share of the potential will be influenced by both the competitors and by the number of airplanes which are converted to the new product. Our 1972 sales volume in these products was about \$2.5 million. The rate of bookings was considerably higher.

We sell to this industry throughout most of the United States and Europe by our own sales organizations, sup-

plemented by long-standing excellent representatives in New England, France, Canada, Scandinavia, Israel and Japan.

Air cleaning applications and, to a lesser extent, sound suppression on gas turbine engines, contributed significantly to our sales volume during 1972. As gas turbines may be widely applied to surface transportation, we have been working with a number of truck and engine manufacturers on similar applications.

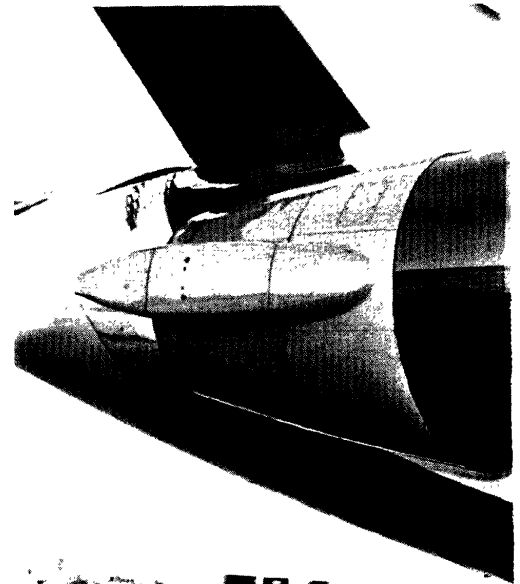
Entry Into The Industrial Fluid Power Market

The two newer markets in which we have defined unusual growth opportunities are each much larger in potential size, but they are in earlier stages of development.

In the industrial fluid power market our hydraulic filters increase reliability and life by protecting servo valves, pumps, motors and hydraulic transmissions. Our pneumatic filters remove oil and dirt, and cut down on noise in pneumatic cylinders, valves and other devices.

The market is big and amorphous, and difficult to penetrate. Our new concept—that our more expensive product will produce maintenance savings by reduction of wear—requires active selling. We have been at this missionary job for some years now, with increasing success. Our line was significantly broadened near the end of fiscal 1972 to include high pressure filters which are smaller and lighter than anything else on the market and are competitively priced. Our marketing is through distributors, except for direct sales to the British and German markets and to the automobile companies in Detroit.

Our major customers include Cincinnati Milacron, Massey Ferguson, General Motors—Terex Division, CMI

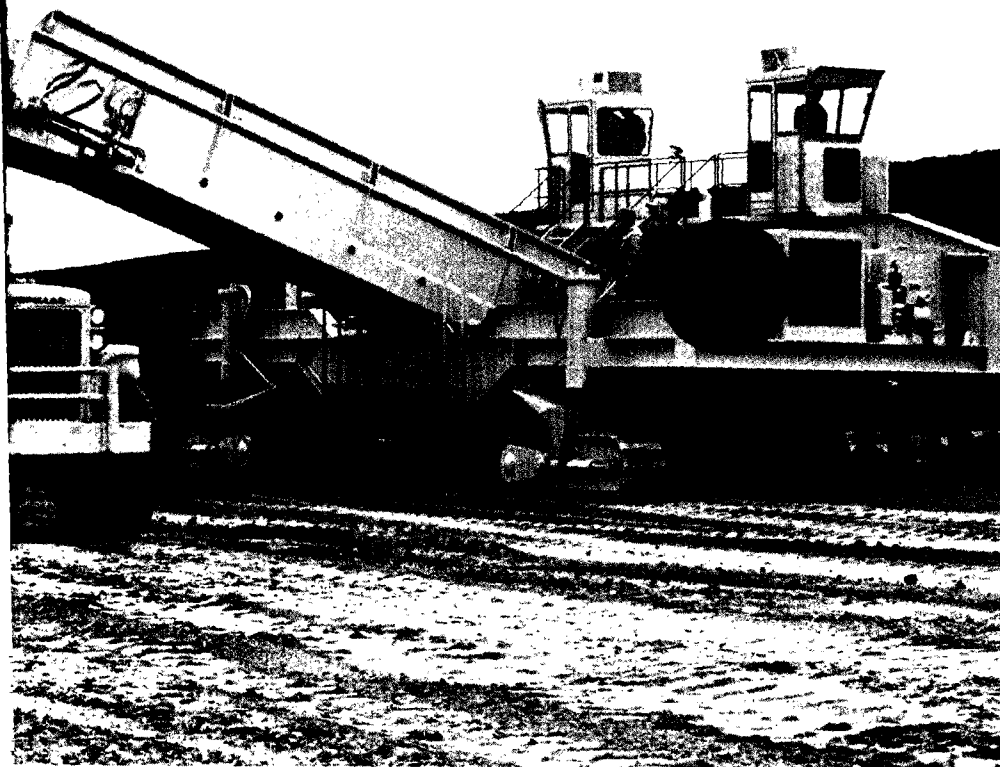




and many other original equipment manufacturers, and dozens of machine tool users, including a growing number in the automotive industry. In addition to our own distribution, we are entering into brand naming arrangements with a limited number of outstanding fluid power companies. Noteworthy among existing arrangements is one with Moog, Inc., leader in hydraulic servo controls. Moog has doubled their warranty—from one year to two—if our filter is used.

In a similar move, we entered into a brand naming arrangement on our pneumatic filters with C. A. Norgren Company, the world's leading suppliers of Filter-Regulator-Lubricators.

We sold about \$1.5 million of fluid power filters in 1972 in a market which we estimate to have a potential of \$75 million a year. Here, too, the rate of bookings was considerably higher than shipments for the year.



Pratt & Whitney jet engine uses combination of Pall products

Our work over the past several years in introducing the first high temperature, disposable, fine lubricating oil filters and companion air cleaning devices for aircraft engine bearing protection, has created new aerospace growth potential. Pratt and Whitney's JT8D engine (shown above), power plant for the Boeing 727, 737, Douglas DC9 and Sud Caravelle Super B, uses this product combination.

Pall filters protect CMI giant earth mover

Among our customers for hydraulic filters is CMI Corporation, a leading manufacturer of off-the-road construction equipment. Shown here is their new giant excavator capable of moving chunks of earth up to 2½ feet deep, 15 feet high, at the rate of 100 yards per minute. Pall filters, proven to produce substantial maintenance savings by reduction of wear, are standard equipment on these units.

Expansion In The Biomedical Market

The Biomedical market is the fourth in which we see substantial growth prospects. We have approached this market, from our beginnings in it a few years ago, with the idea that we would market our products through major hospital supply companies; but we have, during these years, also maintained our own biomedical marketing capability. We have looked for and investigated fluid clarification opportunities, as our key executives learned about the hospital supply business.

As you may know, we now have two widely used products on the market—a bacteria removal filter used in Ohio Medical's Anaesthesia Breathing Circuit to protect patients from cross-contamination, and an extracorporeal blood filter used to protect patients from brain damaging microemboli (microscopic gaseous or solid particles) during open-heart surgery. Johnson & Johnson has been distributing the latter product in the U.S. since February, 1972 and will soon be distributing it in most of the rest of the world.

Principally with these two devices, but along with a number of others sold in relatively small quantities to such companies as Abbott and Technicon in the United States and Siemens in Germany, we shipped about \$1.0 million of biomedical products in 1972.

We have had no extensive market surveys or independent studies done but we estimate a long range \$75.0 million per year potential for our biomedical products now in production or in various stages of design or development. It should be noted, however, that most of this potential is based on products either recently introduced or to be introduced over the next two years, and for this reason it is difficult to forecast with any degree of certainty.

New Blood Transfusion Filter

Our immediate aim is for a 50% increase in 1972's one million dollars of biomedical sales in 1973. This can be achieved only if our expectations for our new blood transfusion filter are realized. After extensive and successful clinical testing, we began regional introduction of this filter on the East Coast of the U.S. at the end of June, 1972 and on the West Coast in mid-July. In order to assure proper introduction of this excellent product by filtration experts available to answer technical questions, we started sales through a selected group of our own filter salesmen; but first they were given an orientation course by a physician who has used our filters extensively, and by our Manager of Biomedical Marketing and Director of Biomedical Engineering.

Initial reaction from the hospitals has been excellent. The product, which is easy and economical to use, has been clinically demonstrated to save patients from serious lung damage and death from emboli introduced during massive transfusions. To give you some idea of relative market size—there are 80,000 to 100,000 open-heart procedures per annum in the United States, but there are at least 5 million transfusions. The potential for our filter in multiple bag transfusion is enhanced since its cost (about \$4.50) is com-

pletely recovered in savings on other disposable items when five bags are given.

One competing transfusion filter (over which we believe we have important technical advantages) has been on the market a short time. A second, similar in design concept to the other competitor, has recently come out. We expect to have quite good patent protection on ours.

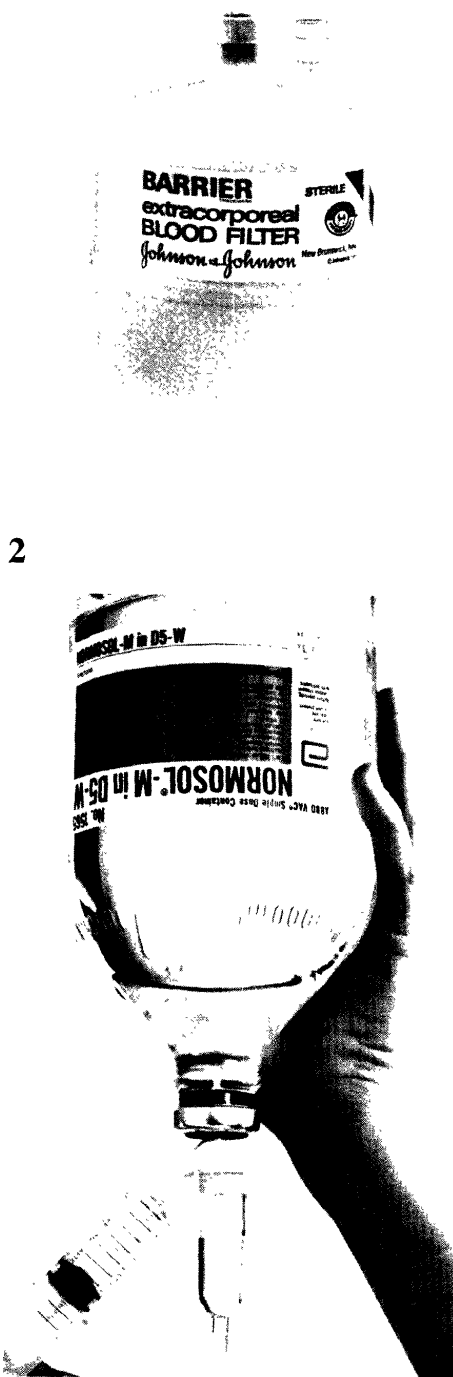
Biomedical Products In Development Or Testing Stage

We have in the design stage a device for purification of fluids used for intravenous injection. Its potential is large, since there are about 60 million intravenous fluid administration sets used per year in the United States alone. Problems in the last year with bacterial contamination in fluids in the United States and Britain have pointed more clearly than ever to the need for such a product. We will sell our device to a large hospital supply company who will assemble it into an administration set of their manufacture, and package, sterilize and market it. The complex nature of this program is such that it may take as long as two years to reach the market, and it is always possible in such an extended length of time that technology in fluid packaging and administration may change.

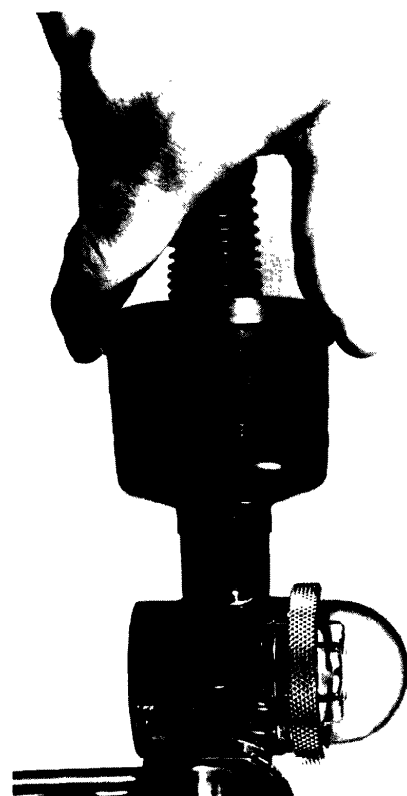
Two new Pall air and gas filters, to protect patients from cross-contamination during inhalation therapy, are the subject of a distribution agreement in the United States and Canada with Ohio Medical. They are in the proto-



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Biomedical filters distributed by major hospital supply companies

The Biomedical market is one in which we see substantial growth opportunity. In addition to our blood transfusion filter and a growing list of products in development, we have in production:

1. Sterile water filters for urological equipment built by Siemens of Germany;
2. Extra-corporeal blood filters for use in open-heart surgery, distributed by Johnson & Johnson;
3. Bacteria filter materials used in Abbott Laboratories' intravenous fluid bottles;
4. Bacteria removal filters used in Ohio Medical's disposable anaesthesia breathing circuit.

1972 Summarized

type stage and not completely out of development. They will probably reach the market in the second half of our fiscal 1973.

After having acquired patent rights from a physician and a university hospital, we are developing an autotransfusor—a device to collect a surgical patient's blood, remove emboli from it and return it to him, thus saving transfusions. If successful, potential could be large. For example, if 5% of all United States operations in which a gas anaesthetic is given (there are more than 10 million of these a year) used an autotransfusor, the market in the United States alone, at expected prices to the hospital, would be about \$15 million a year. To our knowledge, there is one autotransfusor on the market—but it involves expensive and complicated equipment. Ours is a simple disposable which will sell for just about the price of a single pint of blood. At this time we expect to be moving into clinical testing in six to nine months.

Other Fluid Clarification Markets

Although we have defined only these four growth areas at length, it should be noted that in 1972 we did about \$16.5 million in our basic business in fluid clarification, of which about \$6.0 million was in aerospace metal filters, air cleaners, sound suppression and other applications, and \$10.5 million was in coarser disposable and metal filters and in gas dryers for such industries as fiber and film, nuclear and fossil fuel power, marine, chemicals, petrochemicals, pulp and paper and others, including a small amount for household water purification. We expect this portion of our business to grow at least at the rate of the GNP of the various countries in which we do business.

Volume in 1972 grew about 7% from 1971. In continuing lines the volume increase was a healthy 13%. Disposable filters and their appurtenances grew to \$11,100,000 or 42% of sales from \$8,500,000 or 37% of sales in 1971. However, profits were still low as an operating loss was incurred during the first full year of operation of our main aircraft filter operation in St. Petersburg, Florida, where it moved from Glen Cove, New York, and as losses were incurred on two military programs—one involving sewage treatment plants for Litton's LHA ship program and the other filters for Grumman's F14. No circumstance similar to any of these is expected in fiscal 1973.

Filter on American Motors' automatic welder

The ability of Pall Ultipor® filters to keep hydraulic systems clean and productive has attracted the attention of many companies in the far flung fluid power market. Experience with elimination of downtime on other equipment prompted American Motors to specify our 3 micron absolute filters for their big, new, million-dollar welder (pictured above). The machine, which has a contamination sensitive hydraulic system, automatically makes 284 spot welds in less than a minute.

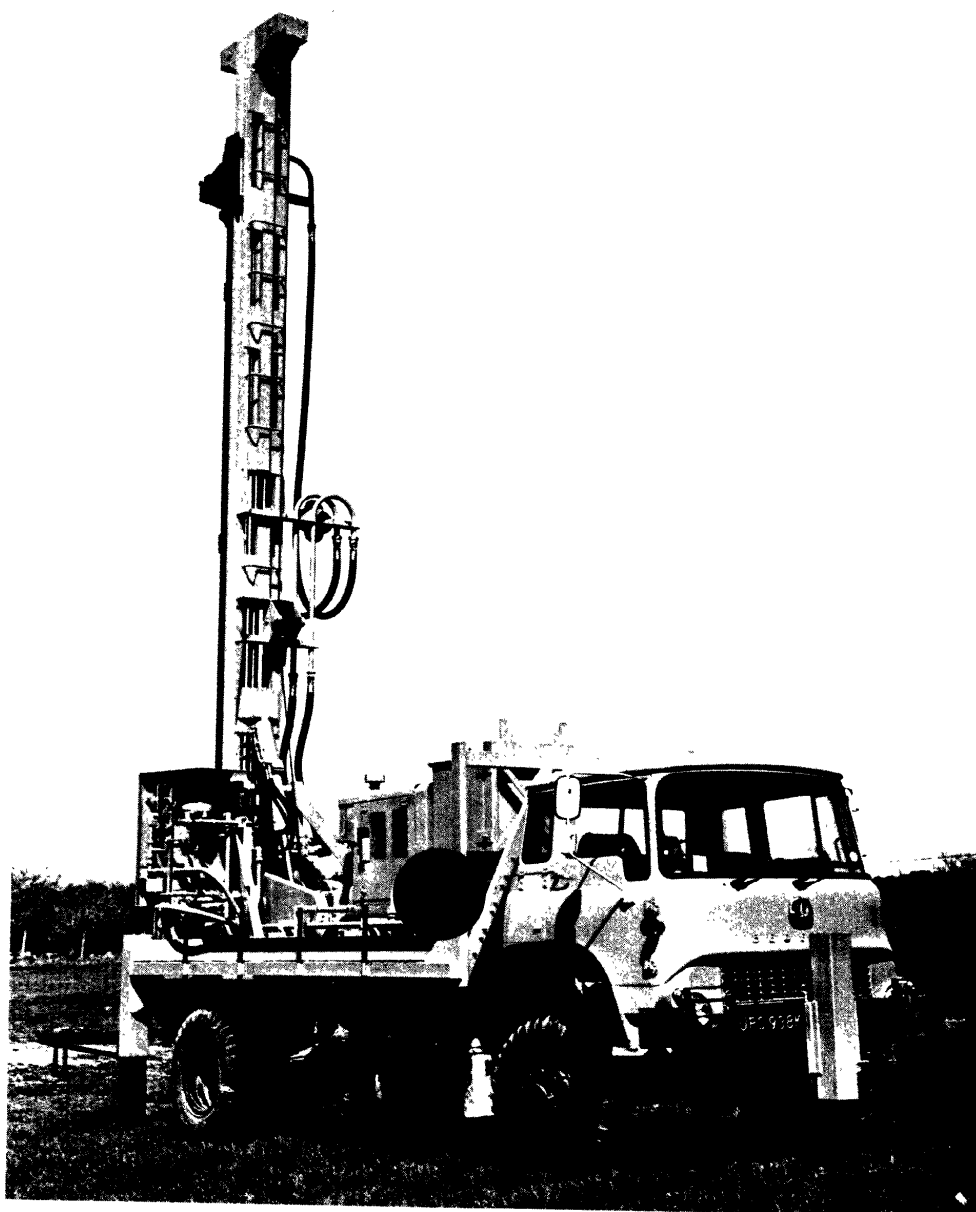
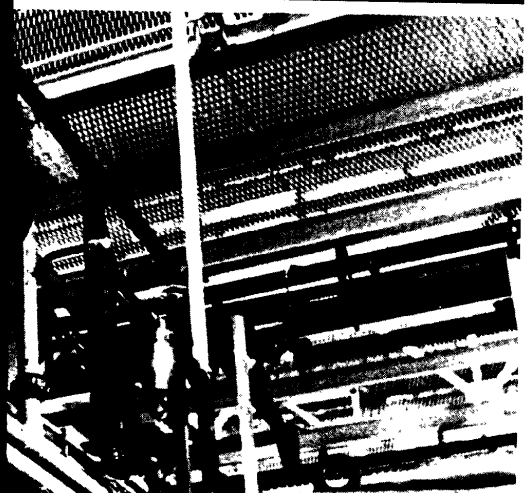


**Japanese trade show exhibit
features Pall dryers**

Pall products are in growing use in Japan. Strong advertising, aggressive salesmanship and heavy trade show activity (pictured above) by Marusho Industrial Company Ltd., our representative-licensee, are building demand for our broad range of gas drying equipment used to remove moisture from compressed air, hydrogen, nitrogen, and other gases. Our filters for process and industrial use are also distributed by Marusho.

**New 9600 series filter
in use on drilling rig**

Our hydraulic filters, competitive in price for all but the crudest applications, increase system reliability and life by protecting servo valves, pumps, motors and transmissions from wear-causing contaminants. This photo shows a British mobile equipment application—the Dando drilling rig fitted with our new 9600 series hydraulic filters, the smallest and lightest high pressure filter available.



Outlook For 1973

With reason to project that sales will reach \$29.0 million as will be shown below, we hope for a significant earnings increase in fiscal 1973. Reflecting vacation shutdowns in our plants and among many of our customers, 1st quarter operations will be seasonally low. We expect each succeeding quar-

ter to show an increase. The change in sales mix during the 1969-1972 transitional period can be seen in the table below. Incoming orders by market for 1972, backlogs at July 31, 1972 and a forecast of fiscal 1973 sales are also shown:

Sales for Fiscal Years ended July 31 (000's omitted)						
Continuing Lines	ACTUAL SALES				Forecasted Sales	Backlog at Beginning
	1969	1970	1971	1972	1973	1973
Aerospace	\$11,100	\$ 9,000	\$ 7,900	\$ 9,050	\$ 9,700	\$ 6,100
Process, Power & Marine	10,600	11,900	12,800	13,600	14,400	4,100
Biomedical	100	600	400	1,000	1,500	400
Industrial Equipment	1,000	2,300	2,000	2,500	3,400	1,300
Total Continuing Lines	22,800	23,800	23,100	26,150	29,000	11,900
Discontinued Lines	3,400	2,900	1,400	100	—	—
TOTAL	\$26,200	\$26,700	\$24,500	\$26,250	\$29,000	\$11,900

For comparison, backlogs at August 1, 1971 were:

Aerospace	\$ 5,200
Process, Power & Marine	3,900
Biomedical	100
Industrial Equipment	500
TOTAL	<u>\$ 9,700</u>

Incoming orders for the year ended July 31, 1972 were:

Aerospace	\$ 9,950
Process, Power & Marine	13,800
Biomedical	1,300
Industrial Equipment	3,300
TOTAL	<u>\$28,350</u>

Thus, it can be seen that, overall, the adequate opening backlog and last year's rate of total orders, if maintained, should result in the achievement of our 1973 budget.

As a note of caution, in the Biomedical market perhaps one-third of the projected sales must come from products just recently introduced.

There is always more than usual risk in such a projection. In the Process, Power and Marine market about a 7½ % increase in orders over the 1972 rate is required. Part of this is dependent on growth of the new AB filter line. It should also be noted that the Aerospace market is very volatile, highly competitive and generally hard to predict.

We have succeeded in shifting more of our sales to disposable filters for substantial markets and, on the whole, the prospects for 1973 are good.

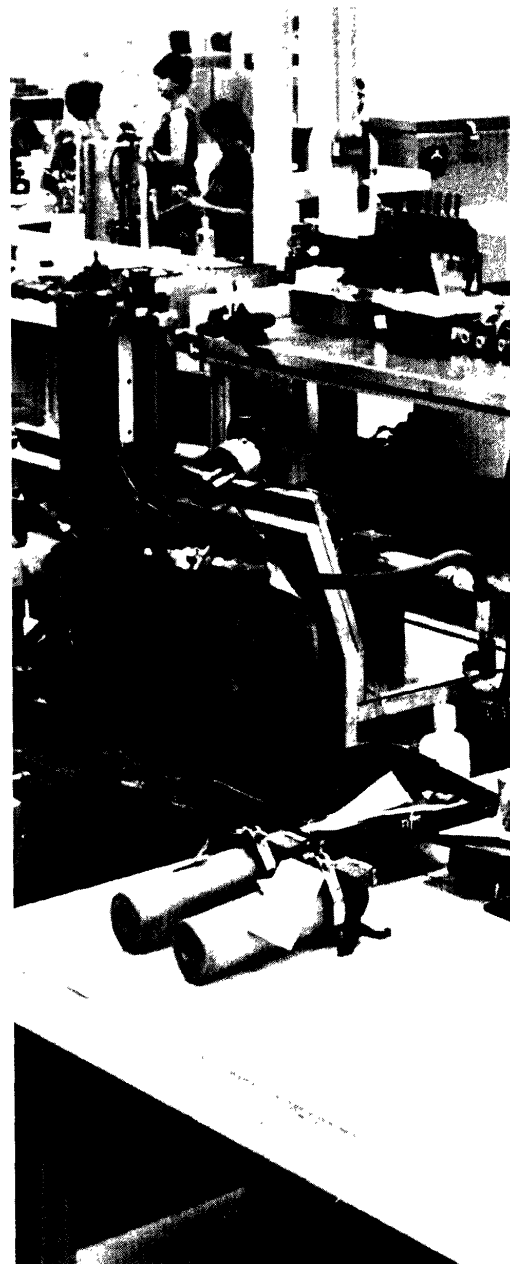
Very truly yours,

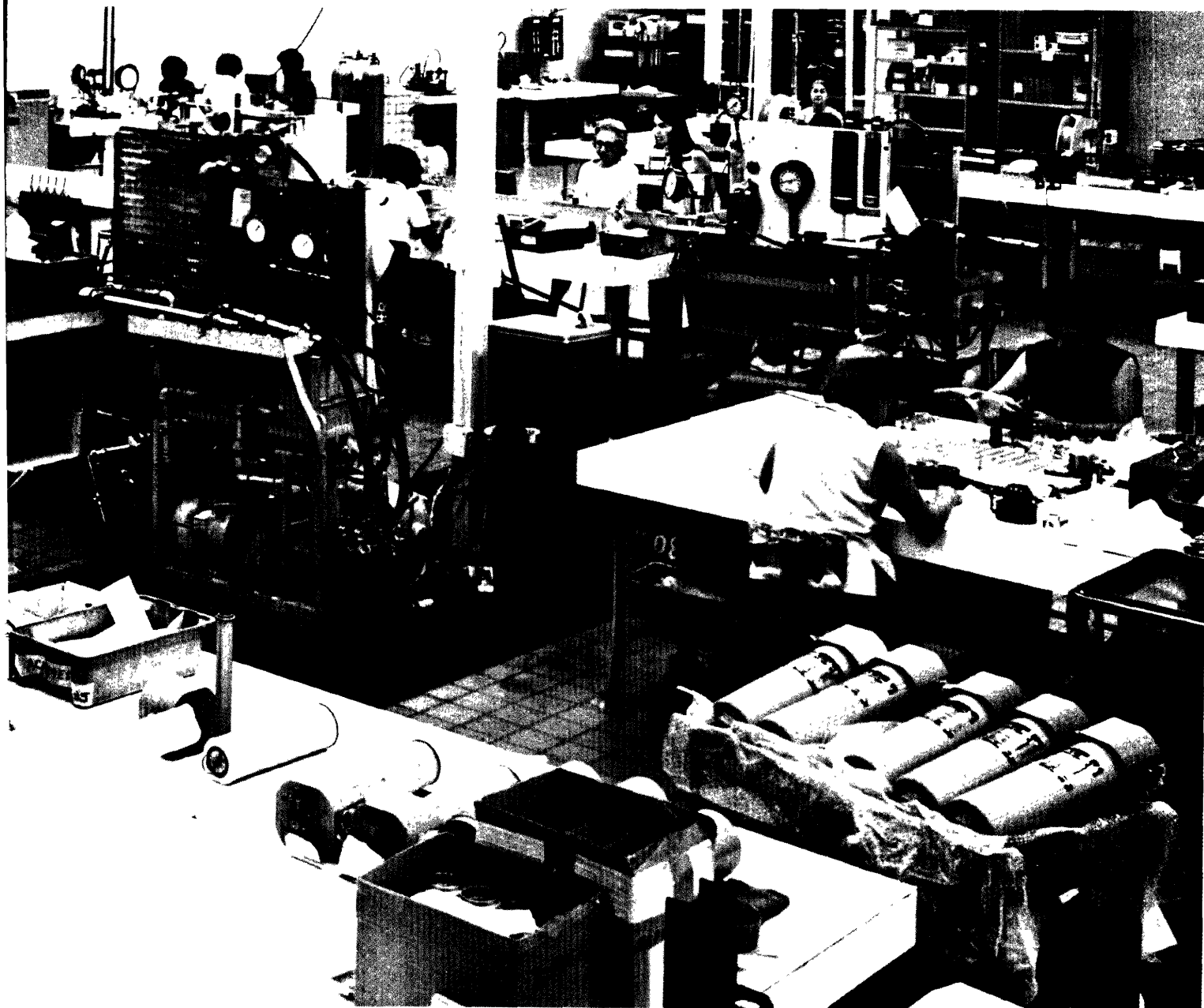
David B. Pall

David B. Pall, Chairman

Abraham Krasnoff

Abraham Krasnoff, President





**New St. Petersburg plant now
in full operation**

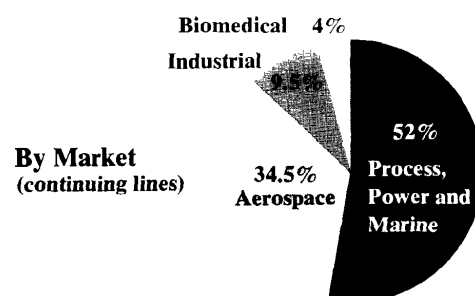
The move of our principal aircraft filter manufacturing facility to Florida from Glen Cove, N.Y. is now complete and we expect it to result in substantial production economies. The new plant, of which one assembly area is shown above, utilizes many of our proprietary types of filter production equipment. It totals 62,000 square feet on seven acres and is located in Pinellas Park, a St. Petersburg, Florida suburb.

Ten Years in Review for the fiscal years ended July 31

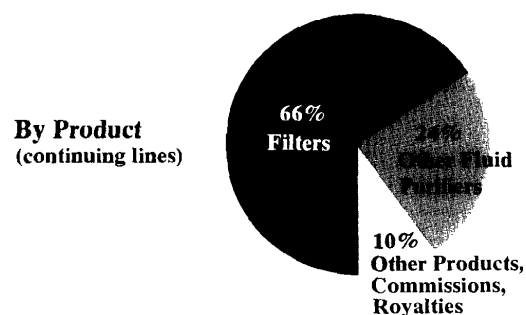
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Sales and Income (000 omitted)	1972	1971	1970
Net Sales	\$26,271	\$24,549	\$26,716
Earnings Before Taxes and Extraordinary Charges-Credits	622	559	454
Earnings Before Extraordinary Charges-Credits*	355	294	229
Financial Position (000 omitted)			
Depreciation and Amortization	1,054	999	951
Cash Provided from Operations	1,409	1,293	1,180
Working Capital	10,881	11,360	11,216
Total Assets	28,888	27,762	28,520
Gross Investment in Plant and Equipment	15,463	13,941	13,785
Long-Term Debt	6,623	6,674	6,954
Stockholders' Equity	12,504	12,070	12,071
Per Share Data			
Average Shares Outstanding (000 omitted)	1,104	1,101	1,098
Earnings Before Extraordinary Charges-Credits Per Share	\$ 0.32	\$ 0.27	\$ 0.21
Dividends Per Class A Share	—	—	0.24
Stockholders' Equity Per Share	11.32	10.96	10.99
Gross Assets Per Share	26.16	25.22	25.96

*Before extraordinary charges-credits: 1971, charge of \$342,544; 1970, charge of \$112,478; 1968, credit of \$45,617; 1966, credit of \$75,122; 1965, charge of \$362,262; 1964, credit of \$734,592.

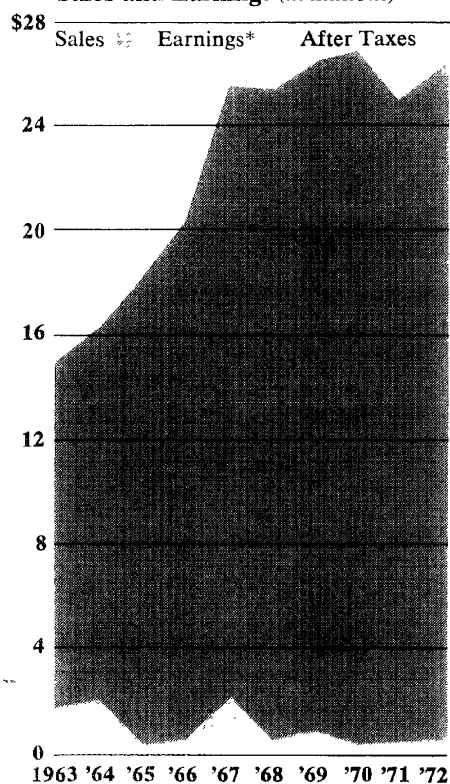


1972 Sales

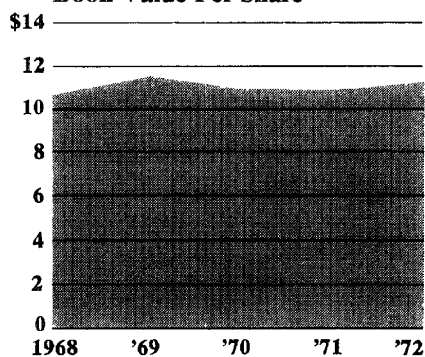


1969	1968	1967	1966	1965	1964	1963
\$26,229	\$25,221	\$25,378	\$20,096	\$17,991	\$16,040	\$14,819
876	532	2,182	551	491	1,984	1,752
406	234	1,077	175	203	1,004	807
926	909	846	768	737	717	561
1,332	1,143	1,923	943	940	1,721	1,368
11,292	11,803	8,874	7,587	6,329	6,174	6,287
26,021	24,461	24,779	21,717	20,215	18,544	16,096
12,841	11,398	10,838	9,901	9,547	7,655	7,176
6,806	8,412	5,673	5,860	4,302	4,092	4,535
12,115	10,553	10,183	9,175	9,337	9,668	7,978
1,062	1,014	937	936	934	933	847
\$ 0.38	\$ 0.23	\$ 1.15	\$ 0.19	\$ 0.22	\$ 1.08	\$ 0.95
0.32	0.32	0.32	0.32	0.32	0.307	0.267
11.41	10.40	10.86	9.81	10.00	10.36	9.42
24.51	24.11	26.43	23.21	21.65	19.87	19.00

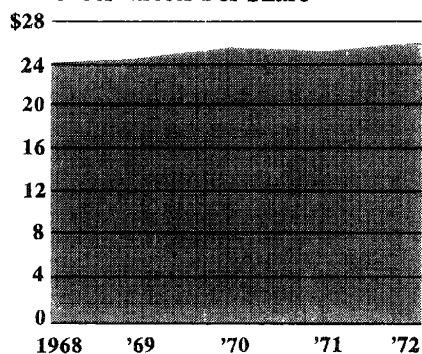
Sales and Earnings (in millions)



Book Value Per Share



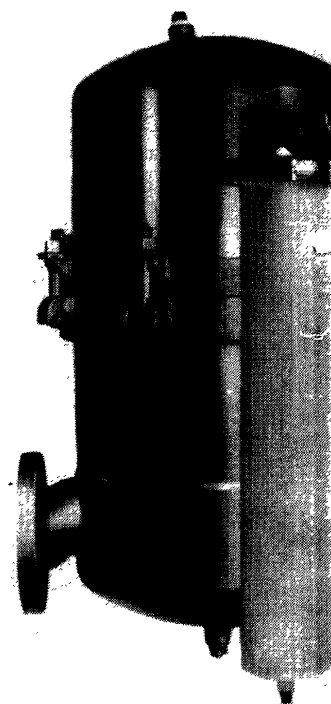
Gross Assets Per Share



	1972	1971
Net sales	\$26,270,979	\$24,548,638
Cost of sales	17,026,262	15,757,375
Gross profit on sales	9,244,717	8,791,263
Selling, general and administrative expenses	8,646,015	8,260,083
Earnings from operations	598,702	531,180
Miscellaneous income	22,859	27,373
Earnings before provision for federal and state income taxes	621,561	558,553
Provision for federal and state income taxes	266,600	264,156
Earnings before extraordinary charges	354,961	294,397
Extraordinary charges	—	(342,544)
Earnings (loss)	\$ 354,961	\$ (48,147)
Earnings (loss) per share*:		
Earnings before extraordinary charges	\$ 0.32	\$ 0.27
Extraordinary charges	—	(0.31)
Earnings (loss)	\$ 0.32	\$ (0.04)

Depreciation and amortization charges included in Cost of sales and Selling, general and administrative expenses amounted to \$1,054,182 and \$998,668 for the years ended July 31, 1972 and 1971, respectively.

*Earnings per share are based on the average aggregate number of shares of Class A Stock and Class B Stock outstanding during the period. Exercise of outstanding options and conversion of the Company's convertible debt would not result in any material dilution.



for the years ended July 31

	1972	1971
Balance, beginning of fiscal year	\$5,498,847	\$5,455,255
Add:		
Issuance of 150 shares of Class A Stock in 1972 and 2,150 shares in 1971 pursuant to stock options	1,500	25,542
Conversion of \$78,000 and \$19,000, respectively, of 6¼ % convertible subordinated debentures into 3,900 and 950 shares, respectively, of Class A Stock	74,100	18,050
Capital in excess of par value at end of fiscal year	\$5,574,447	\$5,498,847

The comments contained in the accompanying Notes to Consolidated Financial Statements are an integral part of these statements and should be read in conjunction herewith.

	1972	1971
Balance, beginning of fiscal year	\$5,467,696	\$5,515,843
Add: Earnings (loss) for the year ended July 31	354,961	(48,147)
Retained earnings at end of fiscal year	<u>\$5,822,657</u>	<u>\$5,467,696</u>

for the years ended July 31

Sources of Working Capital:**Operations:**

Earnings before extraordinary charges	\$ 354,961	\$ 294,397
Depreciation and amortization	1,054,182	998,668
Deferred income taxes	57,656	27,212
Working capital provided from operations, exclusive of extraordinary charges	1,466,799	1,320,277
Extraordinary charges	—	(342,544)
Cost of non-current investment sold	—	113,500
Working capital provided from operations	<u>1,466,799</u>	<u>1,091,233</u>
Increase in long-term debt	717,500	360,000
Disposals of fixed assets	616,455	543,283
Proceeds of capitalized leases	6,515	33,295
(Increase) reduction in other assets, etc.	(52,509)	15,459
Issuance of stock pursuant to stock options	1,650	27,692
Issuance of stock upon conversion of debentures	78,000	19,000
Working capital provided	<u>2,834,410</u>	<u>2,089,962</u>

Uses of Working Capital:

Acquisitions of fixed assets	2,545,802	1,304,932
Reduction of long-term debt	689,763	621,728
Reduction of debt upon conversion of debentures	78,000	19,000
Working capital used	<u>3,313,565</u>	<u>1,945,660</u>

Increase (Decrease) in Working Capital	<u>\$ (479,155)</u>	<u>\$ 144,302</u>
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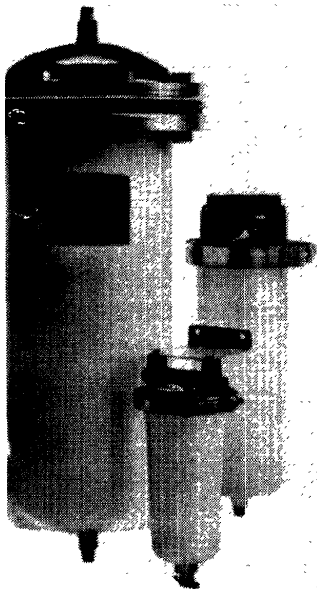
Changes in Working Capital by Element:**Increase (decrease) in:**

Cash	\$ (18,527)	\$ 44,565
Accounts receivable	916,017	(542,014)
Other receivables and advances	(63,984)	176,168
Prepaid expenses	61,242	(47,745)
Merchandise inventory	(728,945)	(15,426)

Decrease (increase) in:

Notes payable	(398,246)	570,933
Accounts payable	(312,667)	60,821
Accrued expenses, taxes and sundry liabilities	319,883	(267,335)
Federal and state income taxes payable	(213,116)	(24,013)
Current portion of long-term debt	(40,812)	188,348

Increase (Decrease) in Working Capital	<u>\$ (479,155)</u>	<u>\$ 144,302</u>
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Filter Assemblies
for Process Fluids

Assets	1972	1971
Current Assets:		
Cash	\$ 718,251	\$ 736,778
Accounts receivable (net of estimated uncollectibles of \$109,836 and \$86,342, respectively)	6,664,106	5,748,089
Other receivables and advances	245,673	309,657
Prepaid expenses	230,414	169,172
Merchandise inventory	10,939,731	11,668,676
Total Current Assets	18,798,175	18,632,372
Fixed Assets—at Cost:		
Land	296,157	330,730
Buildings, machinery, equipment, etc. (less accumulated depreciation of \$6,073,574 and \$5,436,940, respectively)	9,092,903	8,173,601
Total Fixed Assets	9,389,060	8,504,331
Other Assets:		
Investments and receivables—long-term	138,368	30,963
Deferred charges, deposits, etc.	222,769	244,896
Intangibles (less accumulated amortization of \$266,678 and \$257,114, respectively)	339,681	349,245
Total Other Assets	700,818	625,104
Total	\$28,888,053	\$27,761,807



Automatic Continuous Air Dryer

July 31, 1972

The financial statements as at and for the year ended July 31, 1971 are included for comparative purposes only. Reference should be made to the Company's previously issued annual report for the Auditor's Opinion and notes pertaining to those financial statements.

Note 1—Accounting Policies

Basis of Consolidation:

The statements of Pall Corporation are presented in consolidation with its subsidiaries, all wholly-owned. Intercompany transactions and unrealized profits in inventories have been eliminated.

Translation of Foreign Currencies:

The Consolidated Balance Sheet at July 31, 1972 includes the following United States dollar amounts in respect of the consolidated foreign subsidiaries:

Current assets	\$5,386,876
Net fixed assets	2,760,948
Intangibles and other assets	140,225
Current liabilities	2,671,459
Long-term debt	509,600
Capitalized lease obligations	1,364,907
Unrealized gain on foreign exchange	82,089

The accounts of subsidiaries located outside the United States have been translated into

Liabilities and Stockholders' Equity	1972	1971
Current Liabilities:		
Notes payable	\$ 3,494,645	\$ 3,096,399
Accounts payable	2,117,508	1,804,841
Accrued expenses, taxes and sundry liabilities	1,235,722	1,555,605
Federal and state income taxes payable	432,995	219,879
Current portion of long-term debt	636,264	595,452
Total Current Liabilities	7,917,134	7,272,176
Long-Term Debt	6,623,491	6,673,754
Other:		
Capitalized lease obligations	1,364,907	1,327,805
Deferred income taxes	396,000	338,344
Unrealized gain on foreign exchange	82,089	79,907
Stockholders' Equity:		
Class A Stock, par value \$1.00 per share, 1,700,000 shares authorized, 1,107,328 and 982,180 shares, respectively, issued and outstanding	1,107,328	982,180
Class B Stock, par value \$1.00 per share, 121,098 shares authorized, issued and outstanding at July 31, 1971 (none at July 31, 1972)	—	121,098
Capital in excess of par value	5,574,447	5,498,847
Retained earnings	5,822,657	5,467,696
Total Stockholders' Equity	12,504,432	12,069,821
Total	\$28,888,053	\$27,761,807

The comments contained in the accompanying Notes to Consolidated Financial Statements are an integral part of these statements and should be read in conjunction herewith.

U.S. dollars using rates of exchange as follows: current assets, current liabilities and long-term debt at current rates; non-current assets at historical rates; and income and expense accounts at the average rates prevailing during the year, except for depreciation expense which has been translated at the exchange rates prevailing when the related assets were acquired. The resulting gain from translation of \$82,089 has been deferred in the accompanying balance sheet.

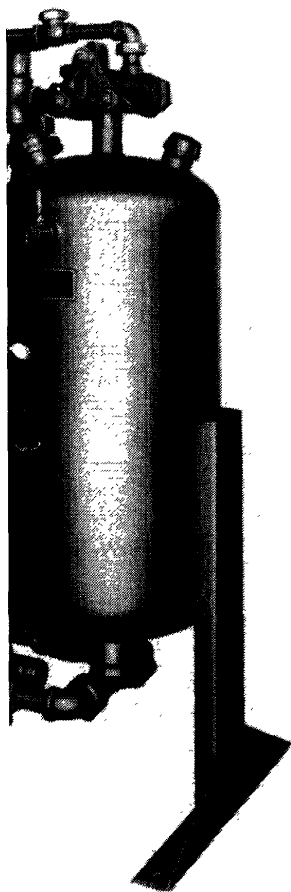
Inventory Pricing:

Inventory was generally priced at the lower of

cost (on the first-in first-out basis) or market. Raw materials, including materials entering into work in process and finished goods, were priced on the basis of average cost. Charges for labor and overhead included in finished goods are based mainly on cost.

Depreciation Methods:

The amounts at which fixed assets are stated in the Consolidated Balance Sheet represent cost, after accumulated depreciation. Provisions for depreciation of property have been calculated approximately as follows: buildings—40 to 50 years, chiefly straight-line;



machinery, equipment and furniture—8 to 10 years, chiefly straight-line; and transportation equipment—3 to 5 years, chiefly declining balance.

Amortization of Intangibles:

Intangible assets include unamortized cost of investment in Die-Draulic, Inc. of \$284,692 at July 31, 1972. This represents the difference between the purchase price and the Company's equity in the underlying net tangible assets at the date of acquisition, and is not being amortized, since in the opinion of management there has been no diminution in its value.

Patents are amortized by the straight-line method over their useful lives.

Note 2—Inventory

Closing and opening inventories used in the computation of cost of sales for the year ended July 31, 1972 are as follows:

	July 31 1972	July 31 1971
Raw materials and components	\$ 5,699,704	\$ 5,916,141
Work in process	2,616,852	2,780,265
Finished goods	2,623,175	2,972,270
TOTAL	\$10,939,731	\$11,668,676

Note 3—Fixed Assets

The fixed assets and respective accumulations of depreciation at July 31, 1972 are as follows:

	Cost	Accumulated Depreciation	Net
Machinery, equipment and improvements	\$ 8,449,183	\$4,389,758	\$4,059,425
Office furniture and fixtures	818,798	433,009	385,789
Transportation equipment	246,954	90,910	156,044
Buildings (1)	5,651,542	1,159,897	4,491,645
Land	296,157	—	296,157
TOTAL	\$15,462,634	\$6,073,574	\$9,389,060

(1) Includes real estate with a book value of approximately \$1,308,000 at July 31, 1972 utilized pursuant to capitalized lease obligations (see Note 5).

Note 4—Long-Term Debt

	Due Within One Year	After One Year
--	---------------------------	-------------------

6% % Promissory Note due as follows: \$66,500 on May 1, 1973 and on May 1, 1974 and \$428,500 on May 1,

1975. The note agreement requires the Company to maintain consolidated working capital (as defined) at not less than \$10,350,000 (\$10,750,000 after July 31, 1972), and places certain restrictions on the creation of additional indebtedness and on various other corporate actions, including the payment of dividends. At July 31, 1972 the amount of consolidated retained earnings subject to restriction was \$5,565,148 and consolidated working capital as defined was \$10,771,935

\$ 66,500 \$ 495,000

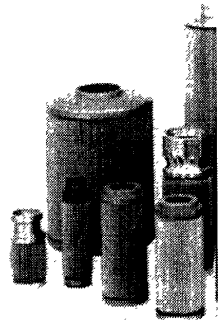
5% % Promissory Note due in annual installments of \$100,000 to November 1, 1977. The note agreement places certain restrictions on corporate actions identical with those imposed under the 6% % note

100,000 500,000

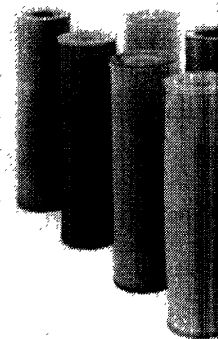
6% % Convertible Subordinated Debentures due June 1, 1983. The indenture issued during 1968 requires the Company to redeem annually on June 1 in each of the years 1976 to 1982 inclusive, one-ninth of the Debentures outstanding on March 31, 1976, and places certain restrictions on the creation of additional indebtedness and on various other corporate actions, including the payment of dividends. At July 31, 1972 the amount of consolidated retained earnings subject to restriction pursuant to the indenture was \$5,125,808. The Debentures are convertible into Class A Stock at a price of \$20.00 per share. Accordingly, 121,200 shares of Class A Stock were reserved for this purpose at July 31, 1972

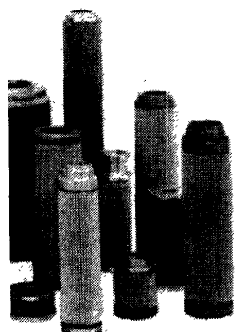
2,424,000

5% % Subordinated Convertible Note dated November 30, 1961 due in semi-annual installments of \$50,000. The unpaid balance will be due on December 1, 1976. The note is subordinated to the 6% % Promissory Note and bears certain restrictions. The note agreement provides for the conversion of the note into Class A Stock at a price of \$37.55 per share, subject to

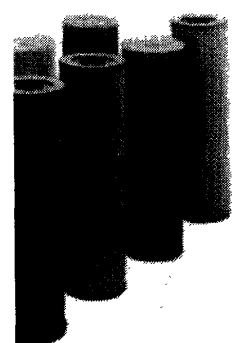


High Pressure, Lightweight Industrial Hydraulic Filter Assemblies





Disposable Filter
Elements for Aircraft



Disposable Filter Elements
for Process Fluids

adjustment in certain circumstances. Accordingly, 11,985 shares of Class A Stock were reserved for this purpose at July 31, 1972

100,000 350,000

Note payable (interest at $\frac{3}{4}\%$ above prime rate) in quarterly installments of \$50,000 to January 1, 1975 with balance of \$800,000 due April 1, 1975. The note agreement places certain restrictions on corporate actions similar to those imposed under the $6\frac{3}{4}\%$ note

200,000 1,100,000

Mortgages payable at interest rates from 3% to $8\frac{1}{2}\%$ are liens on land, buildings and equipment having a net book value of \$2,609,053 at July 31, 1972

169,764 1,386,991

Term loan (interest at $1\frac{1}{2}\%$ over First National City Bank, London base rate) due \$183,750 on December 31, 1973 and \$183,750 on December 31, 1974

367,500

TOTAL \$636,264 \$6,623,491

Note 5—Capitalized Lease Obligations

During the year ended July 31, 1967 the Company sold its plant at Portsmouth, England. This property was then leased back from the purchaser for ninety-nine years. Under the provisions of the lease; the Company is to pay a basic annual rental of \$47,000, and is to pay all expenses relating to the property. The basic rent may be increased in the fourteenth year under certain conditions.

At July 31, 1972 the Company had completed construction of an extension to the above mentioned plant. The costs incurred for this construction amounted to \$840,434. Under the terms of an agreement entered into for the purposes of financing this construction, the Company had received \$840,434 in construction loans. The basic annual rental for the plant addition is approximately \$83,000.

For accounting purposes, the Company has treated these transactions as financing arrangements and has reflected the sales price net of the amortization portion of payments made as a liability. Depreciation on the Company's leasehold interest in the property has been provided for based on its estimated useful life.

Note 6—Class A Stock

On February 15, 1972, all of the outstanding shares of Class B Stock (121,098 shares)

were converted into Class A Stock. Class B Stock cannot be re-issued and, therefore, its existence terminated on that date.

No dividends were declared or paid during the year ended July 31, 1972.

Note 7—Contingencies and Commitments

Pall Corporation and its subsidiaries may be subject to renegotiation of government contracts and subcontracts performed since August 1, 1956. With respect to all periods up to July 31, 1971, the Renegotiation Board has stated its intention not to take any action in the absence of unusual circumstances or subsequent indications of excess profits. In view thereof, no provisions have been made for this contingency for any past years, nor for the current year, since no precedent is available. In the opinion of management, operating results reported upon would not be materially affected.

The Company and its subsidiaries lease certain facilities (other than facilities covered under capitalized leases; see note 5) under long-term leases expiring up to 14 years after July 31, 1972 and annual rentals under such leases amount to approximately \$87,000. Total rental commitments under these leases aggregate approximately \$402,000.

Pall Corporation has sold £311,591 at \$2.4070 per pound for delivery on July 9, 1973.

Pall Corporation is contingently liable on a series of notes with a total face value of \$179,885, which have been discounted. The notes, received upon the sale of its Mexican subsidiary, are payable quarterly to February 1, 1976.

During the year ended July 31, 1972, the Company entered into employment agreements with its chairman, president and six vice-presidents. The aggregate commitment for future salaries at July 31, 1972 was \$797,000.

Note 8—Stock Option Plan

The Pall Corporation 1966 Qualified Stock Option Plan was approved by stockholders at the annual meeting held in November 1966 and provides for the issuance of a maximum of 45,000 shares of the Company's Class A Stock to certain officers and employees of the Company and its subsidiaries.

The balance of unexercised optioned stock as at July 31, 1972 was as follows:

Date Granted	No. of Shares	Option Price	
		Per Share	Total
Aug. 30, 1968- July 21, 1972	10,950	\$9.69-\$16.69	\$145,889

All options expire five years from the date of grant and are exercisable in equal annual increments over that period. Options exercisable at July 31, 1972 were for 3,150 shares.

Options exercised during the year ended July 31, 1972 are summarized below:

Number of shares	150
Option Price:	
Per Share	\$11.00
Total	\$1,650

The Company makes no charge against income with respect to options.

Note 9—Pension and Profit Sharing Plans

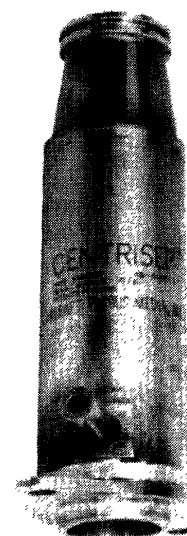
The total cost of Pension and Profit Sharing Plans in effect for the year ended July 31, 1972 was \$228,649. Aggregate amounts in pension and retirement funds exceeded the actuarially computed value of vested benefits at July 31, 1972. The aggregate liability for unfunded past service costs under the Pension Plan is estimated to be \$85,275 at July 31, 1972. Past service costs are being funded over a 30 year period.

Note 10—Deferred Income Taxes

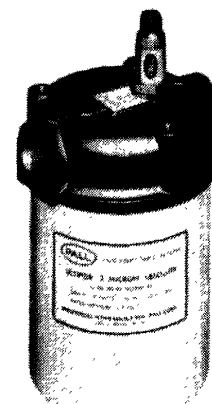
Deferred income taxes result principally from the use, for tax purposes only, of an accelerated depreciation method.

Note 11—Interest Expense

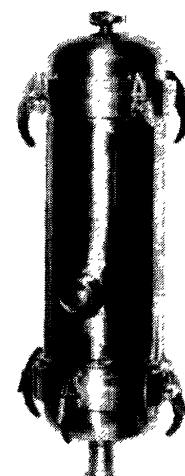
Interest expense amounted to \$790,384 and \$841,823 for the fiscal years ended July 31, 1972 and 1971, respectively.



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for Pharmaceuticals

ROBBINS, GREENE & CO.
CERTIFIED PUBLIC ACCOUNTANTS
521 Fifth Avenue, New York, N.Y. 10017

Board of Directors,
PALL CORPORATION
30 Sea Cliff Avenue
Glen Cove, New York

We have examined the consolidated balance sheet of Pall Corporation and its subsidiaries as at July 31, 1972 and the related consolidated statements of earnings, retained earnings, capital in excess of par value, and changes in financial position, for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of Pall Corporation and its subsidiaries as at July 31, 1972 and the results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, New York
October 18, 1972

Robbins, Greene & Co.

Officers

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Chairman of the Board
Abraham Krasnoff
President
Chesterfield F. Seibert
Senior Vice President
Maurice Hardy
Vice President
Sidney Krakauer
Vice President
Nicholas Nickolaus
Vice President
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Directors

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Maurice G. Hardy
Donald M. Harris
Abraham Krasnoff
Chesterfield F. Seibert
Jerome S. Shulman
Alan B. Slifka

Corporate Headquarters

Glen Cove, New York 11542
Tel. 516-671-4000
TWX 510-223-0606
Telex 01-26329

Principal Plants

Glen Cove and Cortland, New York;
St. Petersburg, Florida;
South El Monte, California;
Grand Rapids, Michigan; Putnam,
Connecticut; Montreal, Canada;
Portsmouth, England;
Frankfurt, Germany

General Counsel

Carter, Ledyard & Milburn
New York, N.Y.
McKenna & Co.
London, England

Patent Counsel

Janes & Chapman
New York, N.Y.

Government Contract Counsel

Gilinsky, Stillman & Mishkin
New York, N.Y.

Auditors

Robbins, Greene & Co.
New York, N.Y.

Registrar and Transfer Agent

Franklin National Bank
Corporate Trust Department
95 Wall St., New York, N.Y.

PALL CORPORATION Glen Cove, Long Island, New York 11542