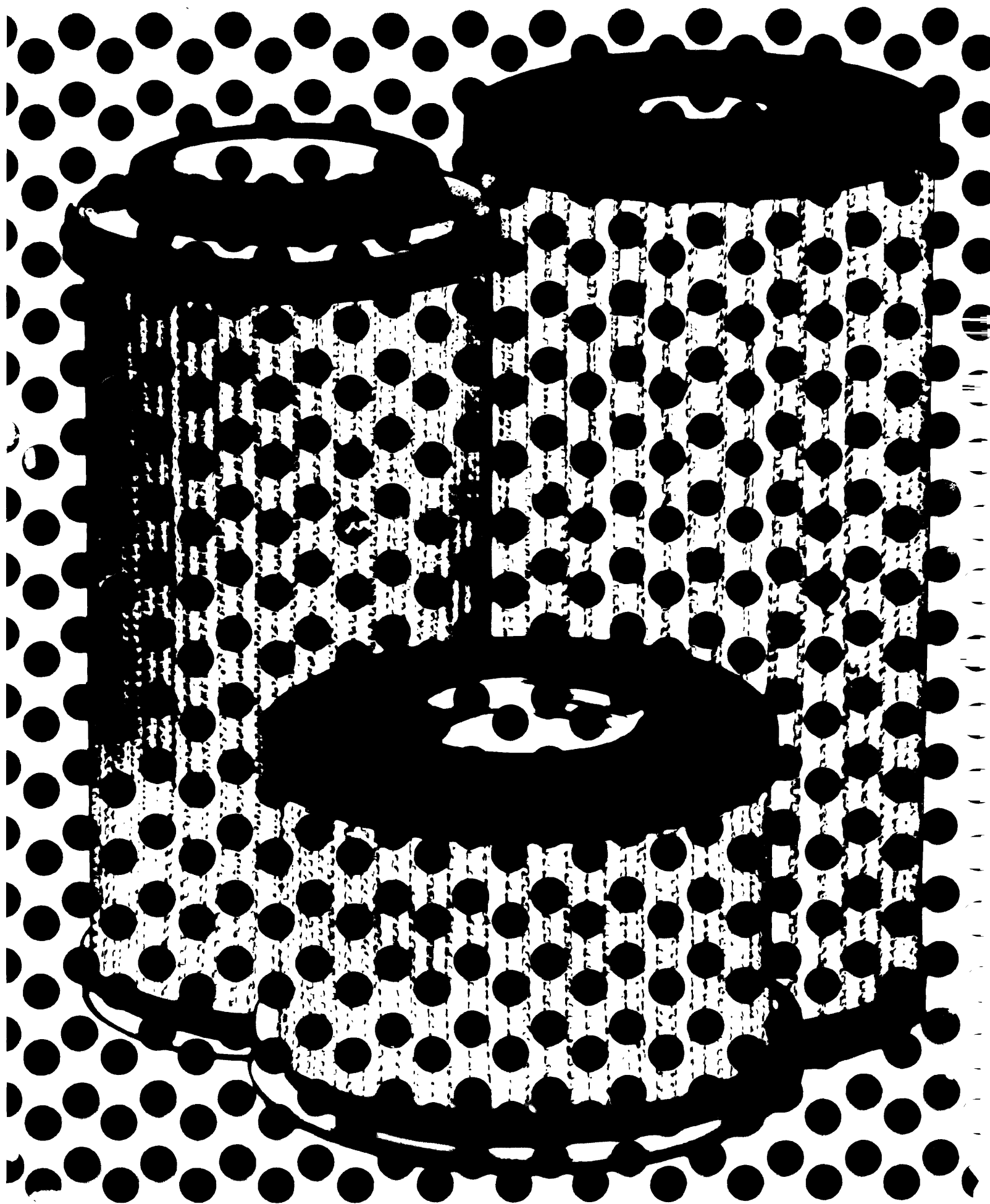
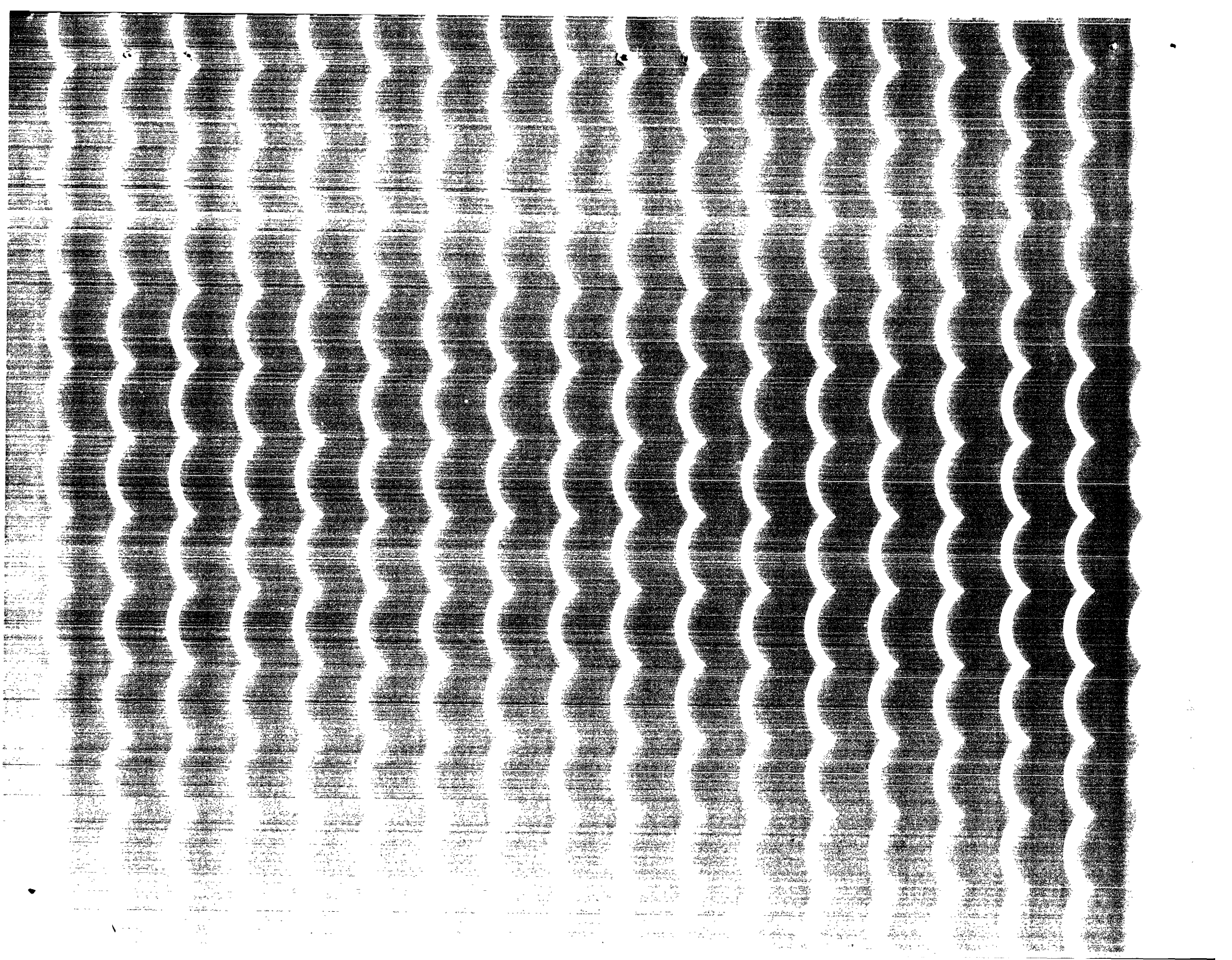
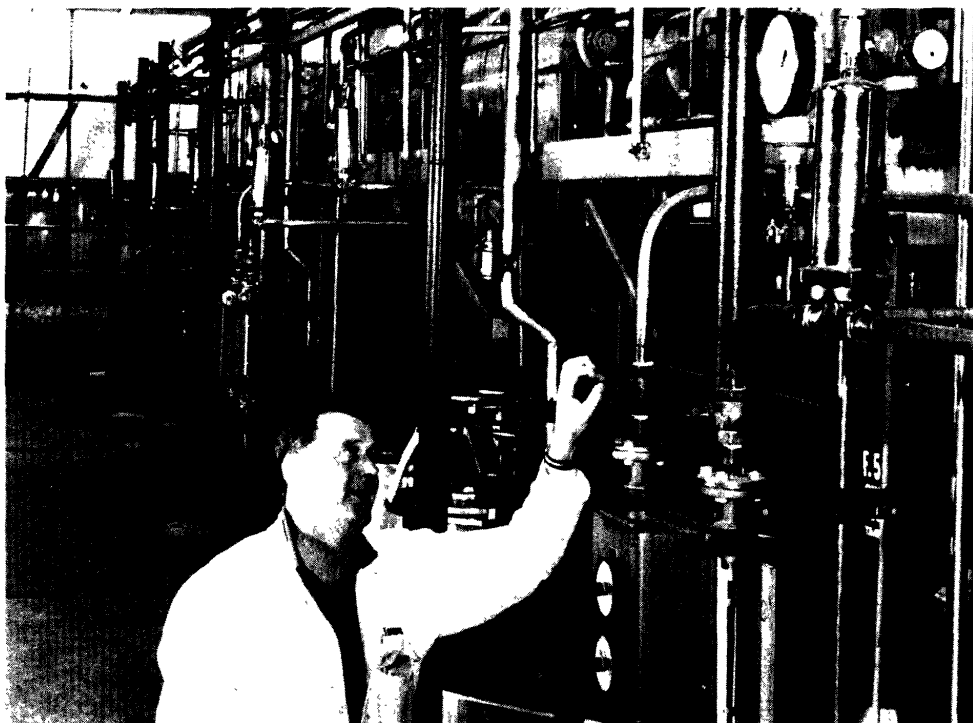








Pall offers users of process fluids in all parts of the world the broadest range of filter media available for solving fluid clarification problems. Pictured here are Pall sterilizing filters providing bacteria-free water for pharmaceuticals manufactured by Dista Products Ltd., Liverpool, England.

Cover Story:

The cover design symbolizes our leadership in fine filtration. In most cases Pall filters are required to remove particles ranging in size from fractions of a micron to 40 microns. A 40 micron particle is about the smallest size which can be seen with the unaided eye. We are now active in four major markets: Process and Electric Power; Aerospace; Fluid Power and Biomedical. Modern production processes and equipment utilizing closer tolerances and using new extremes of temperatures, pressures and corrosive conditions, and an increasing awareness of the need to protect people and products from bacteria and other extremely fine contaminants create a demand for sophisticated filters of the kind we produce.

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Fiscal Highlights

for the years ended July 31

	1972
Consolidated Net Sales	\$26,270,979
Earnings before Taxes on Income	\$ 621,561
Taxes on Income	\$ 266,600
Earnings	\$ 354,961
Earnings per Share—Primary	\$ 0.32
Earnings per Share—Fully Diluted	\$ 0.32
Depreciation and Amortization	
Deducted from Earnings	\$ 1,054,182
Cash Provided from Operations	\$ 1,409,143
Total Assets at End of Year	\$28,888,053
Gross Investment in Plant and Equipment	\$15,462,634
Working Capital	\$10,881,041
Stockholders' Equity	\$12,504,432
Average Shares Outstanding	1,104,388
Equity per Share	\$ 11.32

Dear Stockholder

We are pleased to report that Fiscal 1973 operations resulted in record sales, profits, and earnings per share. Fiscal highlights are given on the preceding page.

For those of you not familiar with our history, a retrospective note elsewhere in this report will recount pertinent facts. Suffice it to say here that we have turned around after a difficult period.

We have accomplished this by re-directing our highly technological company from excessive aerospace orientation and dependence on custom engineering of porous metal filters for limited markets to serving new areas with a higher probability of long-term growth.

We chose as our main direction the development of proprietary lines of disposable filters suitably packaged in

standard form for sale in large markets. Using the sophisticated fluid clarification technology available within Pall, we have now successfully developed lines that represent a significant improvement over filters previously offered to each of the four markets to which our sales are directed.

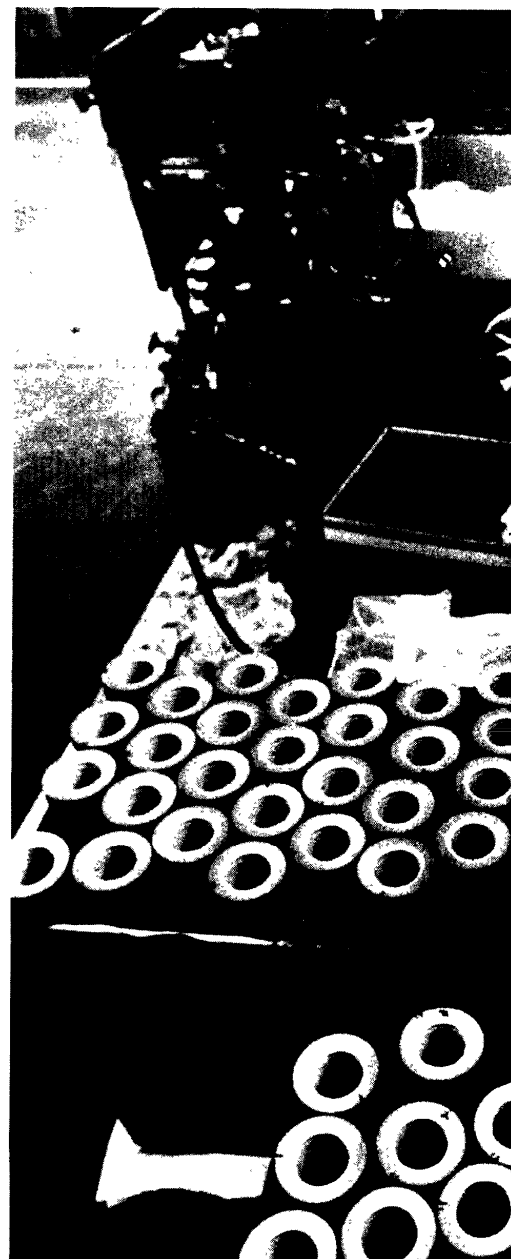
As a result, growth of our disposable filter lines has been very good. Together with appurtenant hardware, disposable product line sales amounted to \$16,000,000 or about 50% of sales in 1973 compared to \$11,100,000 or 42% of sales in 1972. Although the disposable filter is immune neither to the vicissitudes of government whims and business cycles nor to technological obsolescence, it should be noted that once a disposable filter use is established the long-term probability of spares or replacements being used is excellent. Accordingly, this change in our product mix has been a noteworthy achievement and a strong impetus toward future growth.

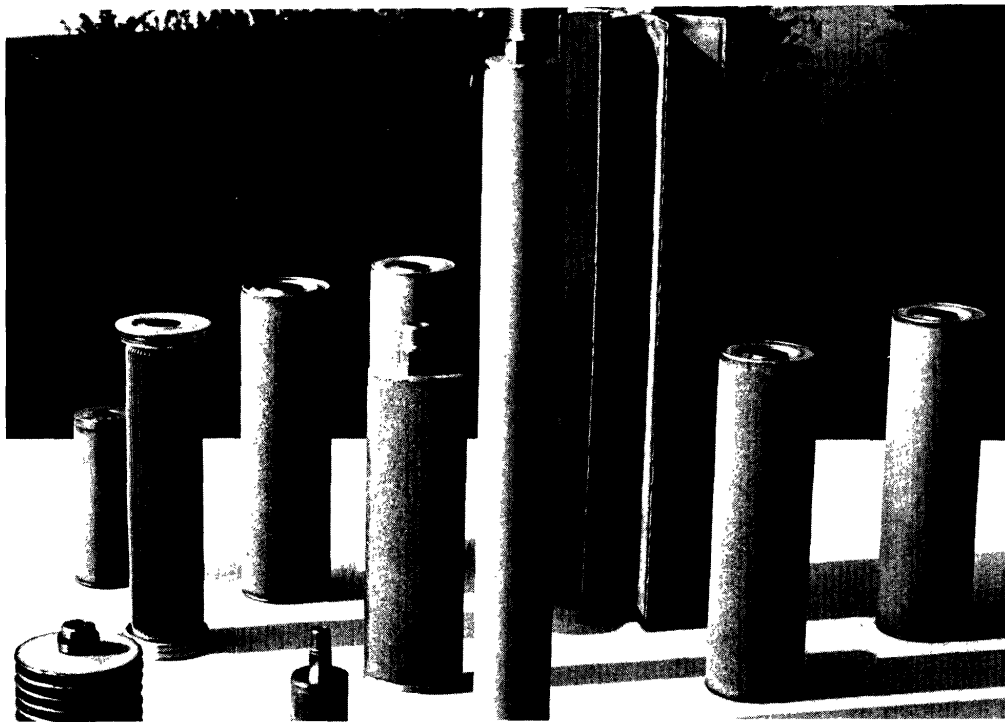
We are now active in four major markets: Process and Electric Power; Aerospace; Fluid Power; and Biomedical. It is significant that in 1973 disposable filters constituted our largest product line in each of these.

Our place in these markets is discussed in other sections of this report. We will just note here that another important accomplishment of the recent past has been the development of strong marketing organizations. The most recent is in the hospital market, in which we just began to set up broad distribution early in fiscal 1973.

The strides made in our disposable lines were accompanied in 1973 by

in each of our markets the principal products we sell are sophisticated, fine disposable filters. Once a disposable filter use is established the long-term probability of spares or replacements being used is excellent. We expect our profitability to increase as disposables grow and as our investment in their manufacturing and marketing pays off.





Pall is also a leader in porous metal cleanable filters, which are used throughout the world in applications ranging from catalyst recovery in chemical processing to protection of the environment from radioactive particles escaping from nuclear power plants.



Pall introduced the concept of using ultrafine filters to eliminate wear causing abrasive particles, thereby extending hydraulic system life. Champion Spark Plug, whose ceramic ball press is depicted above, is typical of the large and increasing number of international manufacturers who specify and use Pall disposable hydraulic oil filters on their production equipment.

growth in our other two major lines: porous metal filters and fluid clarification equipment. Particularly in the process and power markets—as a result of construction commitments on power plants, petroleum refineries and chemical plants—prospects are good for continued progress in the next few years, despite recession or adverse business cycle conditions.

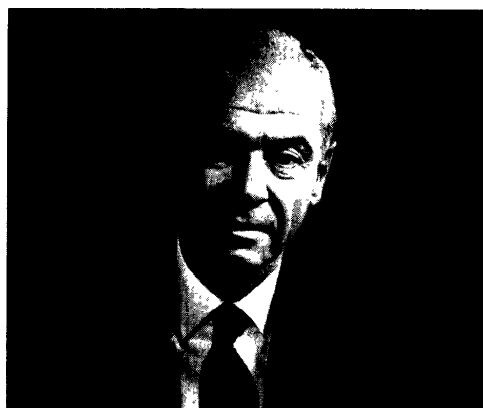
Our efficiency also improved in 1973. Sales averaged \$28,000 per employee in 1973 compared to \$25,000 per employee in 1972.

We also provided against the threat of tight money by entering into a term loan with Franklin National Bank and First National City Bank, establishing adequate credit lines to finance our prospective growth over the next few years.

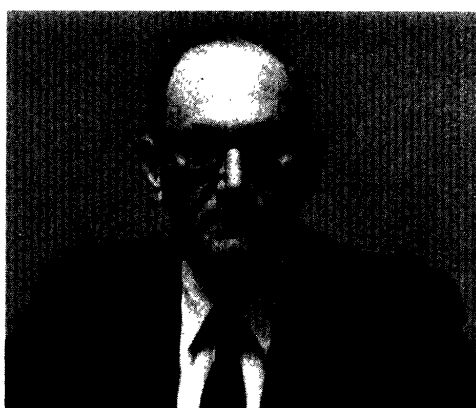
Prospects for next year are good for a ten percent growth in sales, as you will see in the table on page 4. Assuming this sales increase, and good expectations for continued efficiency and favorable product mix, such a ten percent increase is likely to result in a higher percentage increase in profit.

An examination of these figures shows that, in view of a good opening backlog, only a modest increase over last year's total bookings would result in the achieving of our 1974 sales forecast.

There are certain hazards ahead—as appears inevitable when one considers the turmoil of continuing inflation, high interest rates, material shortages, international trade restrictions, and unsuccessful governmental manipulation of the economy of almost every major country. The greatest short-term un-



David B. Pall, Chairman



Abraham Krasnoff, President

Sales for Fiscal Years ended July 31 (000's omitted)

	ACTUAL SALES					Fore- casted Sales	Backlog at Beginning
Continuing Lines	1969	1970	1971	1972	1973	1974	1974
Aerospace	\$11,100	\$9,000	\$7,900	\$9,300	\$11,000	\$11,200	\$6,150
Process & Electric Power*	10,600	11,900	12,800	13,350	15,400	16,800	5,350
Biomedical	100	600	400	1,000	1,500	2,000	400
Fluid Power	1,000	2,300	2,000	2,500	3,850	4,900	1,500
Total Continuing Lines	22,800	23,800	23,100	26,150	31,750	34,900	13,400
Discontinued Lines	3,400	2,900	1,400	100	—	—	—
TOTAL	\$26,200	\$26,700	\$24,500	\$26,250	\$31,750	\$34,900	\$13,400

*Marine market sales have been included with the major product line from which they were sold. They were previously included with Process & Electric Power.

For comparison:

	Backlog at Beginning of 1973	Orders Booked in 1973
Aerospace	\$ 6,250	\$10,900
Process & Electric Power	3,950	16,800
Biomedical	400	1,500
Fluid Power	1,300	4,050
	<u>\$11,900</u>	<u>\$33,250</u>

certainly regarding our earnings at the time of the writing of this report is the effect of economic controls in the United States and in the United Kingdom. However, our marketing is strong, our products are known for excellence, and we are established in a great and growing number of diverse applications, a substantial number of which use our proprietary disposable products.

On the whole, over the term of the next few years, we see good prospects for continuing progress in sales and earnings based on leadership in fine filtration.

Very truly yours,

David B. Pall, Chairman

Abraham Krasnoff, President



There are really two different filter industries. The one in which we are not engaged deals with what is called "bulk solids collection"—where large amounts of solids are collected from slurries. The one in which we are engaged is known as "fluid clarification"—where we remove relatively small amounts of fine particles from relatively large amounts of fluids (liquids or gases).

The fine particles we remove may be products such as penicillin crystals which are being collected in our filters; they may be expensive or noxious catalysts which our filters keep from going up the flue; they may be abrasive particles which our products remove from aircraft and industrial equipment systems to protect function and reduce wear; or they may be bacteria which are removed by our filters to assure sterility in pharmaceuticals, or damaging microemboli to be removed by our blood filters during open-heart surgery or when transfusions are given.

Most of our filters remove particles in the microscopic range. As a guide, the smallest pencil dot you can see with the naked eye is about 40 microns in diameter. Our filters generally range from this pore size which, for example, removes damaging microemboli from blood, down to a pore size of 0.2 microns (or one two-hundredth the size of a visible particle) the size needed to remove the smallest bacteria from pharmaceuticals.

From the time of our inception in 1946, through 1964, Pall Corporation had an extended period of steady growth based mainly on the custom design of fine porous metal filters. These



were designed for aerospace and to a smaller extent for special chemical processing applications, in the microscopic particle removal range.

Following a drastic decline in the Aerospace business, we spent a number of years working on diversification and on new directions. Diversification attempts in a number of directions outside the field of fluid clarification proved not to be fruitful. As a result, a number of lines were disposed of. During this period, although earnings were low, we suffered no operating losses. We kept our balance sheet healthy and—what is of most importance—we did succeed in defining a new direction and in developing a new basis for growth.

We defined our task as turning from the custom design of metal filters for limited markets to the development of proprietary disposable filter media and the design of these media into standard packages for distribution in large markets. Concomitant with this was the need to develop marketing strength to accompany our technical strength.

All of this has now been substantially accomplished. The period of transition began in 1969 when, for the first time since 1957, the year we became a public company, sales to the Aerospace industry were less than 50% of our total. Also in 1969, disposable filters and their appurtenances became a significant part of our business—reaching 25% of sales.

We now have what we believe to be the broadest range of fine disposable filters in industry, accompanied by an outstanding line of housings and accessory devices.

Growth of Disposable Filters (Including Appurtenant Hardware)

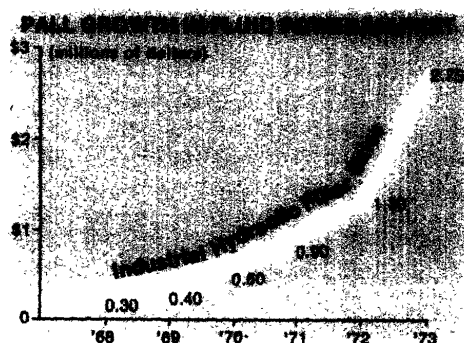
	NET SALES
1969	\$6,500,000
1970	7,100,000
1971	8,500,000
1972	11,100,000
1973	16,000,000

In addition, we have maintained our historic position as a leader in porous metal filtration and in industrial air drying equipment.

We are now actively engaged in four broad markets—each of which is described in more detail in a following section of this report.

Our traditional markets are in Aerospace and in Process & Electrical Power. A major reorientation of our marketing and distribution to these industries was accomplished during the period in which our new emphasis on standard packaging and on proprietary disposable filters became established.

In 1968 we organized separate marketing for the industrial and mobile equipment filter market in a new Industrial Hydraulics Division.

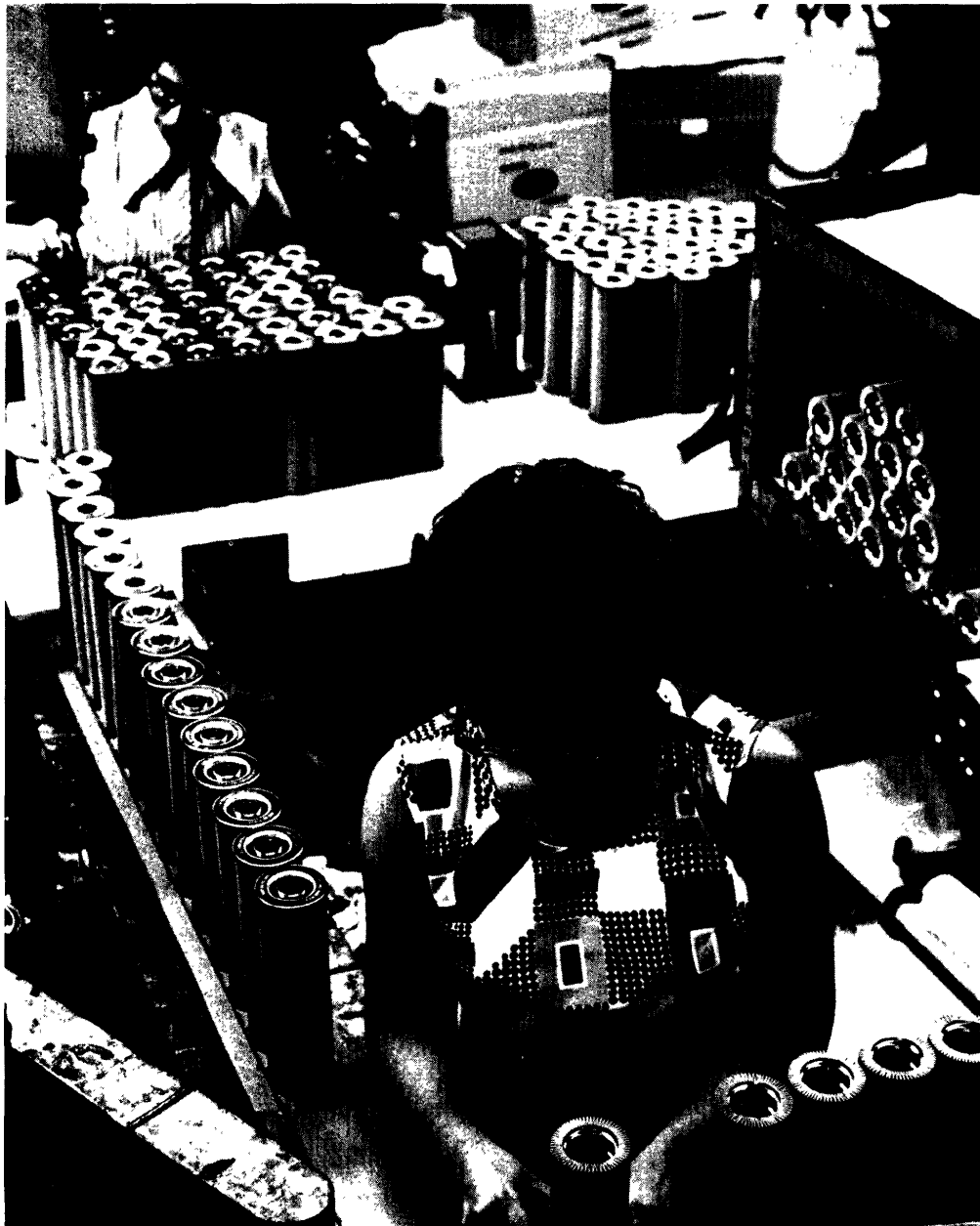


We have made excellent progress since then as the chart below shows.

When we first found opportunities in the Biomedical field we were preoccupied with marketing problems in three other markets. Accordingly we entered this new field by marketing through others for a two year period. In 1971 we started limited hospital marketing of our own, under our new Biomedical Products Division. Sales were \$400,000 in 1971, \$1,000,000 in 1972 and \$1,500,000 in 1973. The increase in 1973 came principally through our own distributor network, which we began to organize only after the fiscal year began and which will be substantially completed in fiscal 1974.

We have found that working too closely with major hospital supply companies soon becomes counter productive. Product introduction becomes bogged down in the many tiers and departments of the giants; essential technical training of their sales organization on an outsider's product is extremely difficult; discounts required by such companies are far higher than any other cost of distribution; and there is always the tendency of such companies to want to manufacture products themselves as soon as they believe they have learned enough to do so.

Accordingly it is our plan to curtail or eliminate exclusive arrangements where possible and to introduce our forthcoming new products through our own distribution, as we have already succeeded in doing with our *Ultipor*® blood transfusion filter.



A good deal has been accomplished in the past few years. We have created a disposable filter business in four markets. We are well established in North America and Western Europe. We have good and constantly improving distribution in Japan, and marketing activity in early stages in Eastern Europe.

We can expect our profitability to increase as disposables grow and as our investment in manufacturing and marketing pays off.

Our research and development continues to be active and productive, and we see significant filter developments ahead.

As the letter from our Chairman and President noted, we see good long-term prospects for growth in sales and earnings.

Companies processing fluids and generating power encompass a broad spectrum of industries, in all of which our products have at least some potential application. Almost half our business was in this category in fiscal 1973. We expect to continue to increase our volume as our product line broadens, and as an increasing concern with product and atmospheric purity grows in many fields.

Chemical manufacturers, petroleum extractors, drug producers, plastics makers, food and beverage processors, steel mills and electronic component manufacturers all use our filters and fluid purifiers. Applications range from providing bacteriologically sterile air and water for pharmaceutical use to removing ultrafine particles from molten plastics in the manufacture of high quality film. American, Canadian and British-made nuclear power generating plants—which will increase in use substantially during the next decade—all use Pall filters to prevent radioactive contaminants from escaping in the liquids and gases which emanate from the plants.

Our new family of AB (absolute bacteria) disposable filters will help our growth. More than two years ago we recognized that the pharmaceutical industry and others would have serious need for a series of large flow capacity disposable cartridges, free of asbestos, capable of in-place steam sterilization, compatible with a wide range of fluids and capable of absolute retention ratings down to 0.2 microns.

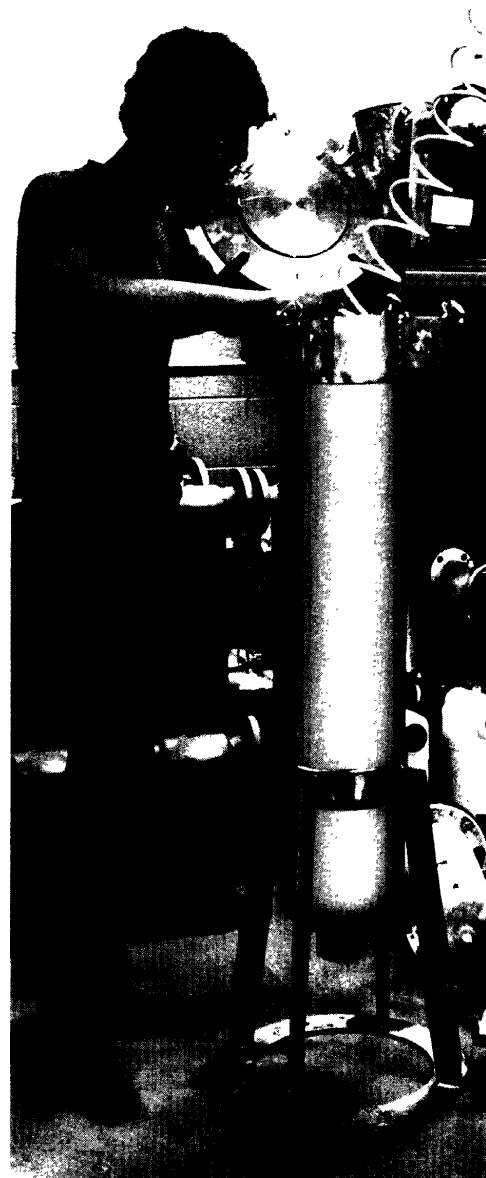
The 0.2 micron retention size is required by the pharmaceutical industry to remove the smallest of bacteria from

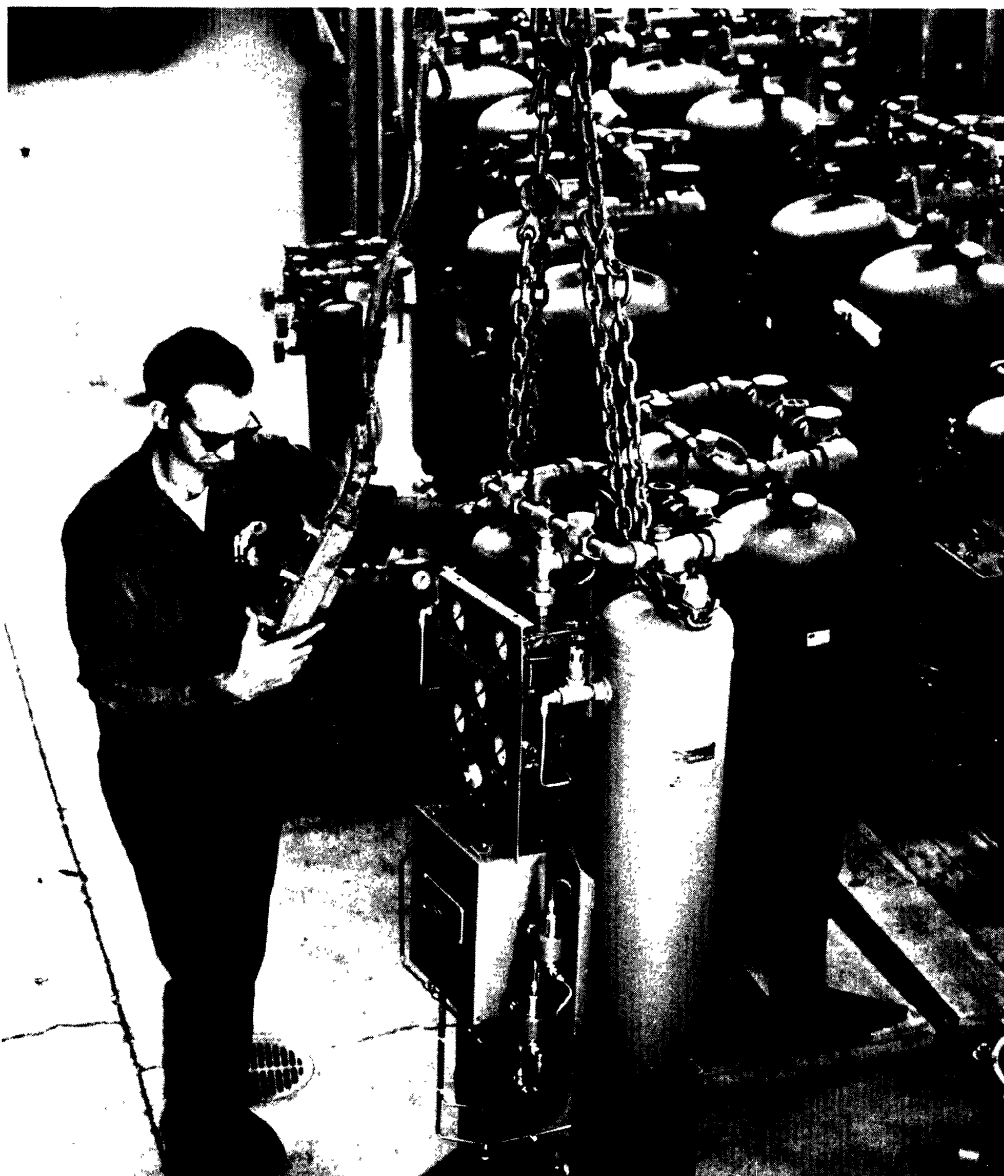
liquids in order to sterilize fluids without heat. Until now they were only able to do this by using asbestos which is now suspect as a carcinogen, or by using expensive and delicate membranes or ceramics. Our *Ultipor* 0.2 micron filters for liquid sterilization just recently reached the market. Applications are growing rapidly, as is the list of important users.

Apart from filters, our next most important process industry line, constituting almost one-third of our process industry business, consists of the world's leading line of desiccant air dryers. In the United States and Europe this line appears ready to enter a new period of growth as a result of the continuing construction of new power plants, petroleum refineries and chemical plants. This air dryer line is also doing well in Europe—and more recently in Japan, as a result of the changes in monetary values.

Changes have been proposed in U.S. federal regulations which will require nuclear power plants to further restrict radioactive gas waste release to the environment. Four different types of treatment systems for removing radioactive xenon and krypton are now available, each of which requires a desiccant dryer. To the best of our knowledge we are the only dryer manufacturer with nuclear code vessel manufacturing approval, which places us in an excellent position to realize this potentially large use of dryers (about \$50,000 to \$150,000 per plant). These applications are in addition to the filters used to prevent radioactive particles from escaping the plants.

As a result of the energy crisis there





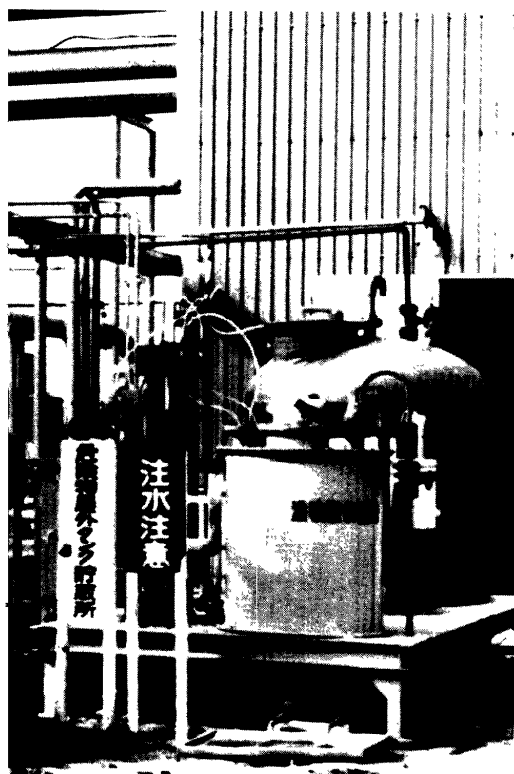
will be more expenditures for breeder reactors, synthetic natural gas and coal gasification plants, and refineries (in addition to more nuclear power plants). In each of these, all of our process fluid purification products—disposable filters, dryers and metal filters—find applications.

Our distribution is well developed in our "home" markets in North America and Western Europe. And, as you may know, we have more recently been penetrating the Eastern European Market, particularly with disposable cartridges. This trading area adds appreciably to our potential.

Acceptance of our proprietary disposable filter line in Japan is very good. Also, as indicated earlier, the devaluation of the dollar and revaluation of the yen have made our dryer line highly competitive with Japanese equipment. Our process equipment exports to Japan increased from about \$500,000 in 1972 to about \$1,000,000 in 1973.

We are leaders in the process market in the purification, by both filtration and drying, of compressed air and other gases. We are also a leader in liquid purification in the fine filtration range of from 10 microns down to sterilizing filter grades. Our new sub-micron liquid sterilizing *Ultipor* AB filter line has advanced us in this new field. We see the opportunity for a substantially increased market for our sterilizing filters over the next few years.

Overall, we look for an extended period of growth in our process markets—particularly with disposable filters, which now constitute about 50% of this business.



The increasing use of fine disposable filters has added a new growth potential to the aircraft industry. The use of many hydraulic systems and oil-air separators has occurred. Consequently, the engine metal lubrication system for bus parts is disposable. The engine parts have changed in design and construction. Bus parts, or components, are now disposable. The engine parts are now disposable.



The Centrifuge Centrifugal air cleaners are presently used throughout the aircraft industry in helicopter engines and piston engines. A long-term potential is being developed for these devices in piston engines. The engine used in piston engines and buses. Test programs with the Centrifuge and certain other filters are currently under way. The Centrifuge Motors and the Centrifuge.



We have long been the leading supplier of fine hydraulic oil filters for aircraft, first with metal filters and more recently with disposable filters.

In the past year and a half, disposable filters have been in use in commercial and military aircraft around the world. This has led to a recovery in our Aerospace business. In addition, over the past several years we have had extensive test programs on the use of disposable lube oil filters to replace historically used metal strainers on jet engines. This business has now started to take hold. As a result, we believe we have about doubled the market potential for disposable filters in the aircraft industry.

The substantial increase in Aerospace sales in 1973 is attributable to several factors:

1. Retrofits and new business in disposable filters have increased. About 75% of our aircraft business is now in filters and 60% of the filters are now in our disposable line.
2. Conversion of the engine metal filter business to disposables has accelerated, along with the use of our *Centrisep*[™] air cleaner in some systems.
3. The aircraft business worldwide has generally made a modest improvement.
4. Last, but not least, we have been getting a substantial share of available new business.

When engineering competence and reliability predominate over cheap initial prices, we generally outstrip the field. This has been true in a number of recent programs. However, there is an equal tendency in the industry to

compromise specifications to encourage price competition, even at the expense of future operating costs. This creates difficult competitive conditions in parts of the market.

Our major Aerospace filter manufacturing facility was completely relocated from New York to Florida about a year ago. It is now fully operational and contributing to earnings. Further improvements in efficiency are continuing to be realized. As a result, our ability to serve the industry has been enhanced, as has our competitive stance and our profitability.

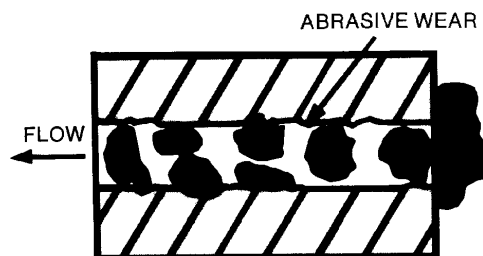
We have changed the nature of our aircraft business, as we have the nature of the whole Company's business, to substantial orientation toward disposable filters. We expect continued modest growth in this business over the next few years, with less dependence on the U.S. military—as our foreign and commercial business grows.

We are also looking for new directions in which to apply our excellent technology in Aerospace fluid clarification. This includes new applications of our *Centrisep* air cleaners, which are used throughout the world to protect helicopter engines from ingested dirt.

One such new—albeit long-term—direction is in the use of *Centrisep* and certain of our filters on gas turbine engines used to power trucks and buses, and other ground and marine equipment. We are actively at work with Ford, General Motors and British Leyland, among others, on such programs; but it is too early to predict the probable degree of success that either they or we will have.

Our principal products in the industrial fluid power market are a line of filters designed around our *Ultipor* .9P 3 micron absolute filter medium. This line also now includes an outstanding array of filter housings and accessory devices which are rapidly assuming leadership in the industry.

The principle of *Ultipor* .9P filtration is simple: particles in the ultrafine 1 to 5 micron range (about one-fiftieth to one-tenth the size of visible particles) have been proven most harmful in causing wear and generating new contaminants as they work their way into moving clearances and act as a lapping compound that grinds away at surfaces. Each newly released particle then circulates through the system and in turn generates still more contaminants, a perpetually self-escalating,



snowballing process which has been called the chain reaction of wear.

This phenomenon is true of virtually all modern hydraulic systems, whether on machine tools, earth moving equipment or farm tractors. Machinery wear, short life of critical components, and costly equipment downtime were taken for granted until we introduced the *Ultipor* filter answer. Cincinnati Milacron, the world's leading machine tool manufacturer, and Massey Ferguson, one of the world's leading tractor manufacturers, were quick to adopt *Ultipor* filter protection on their latest equipment. Many other prominent companies have followed. However, no matter how self-evident the argument, many users are only convinced after extensive periods of testing.

During the past few years, dozens of these test programs have come to successful conclusions. Of major significance among these have been programs in plants of every U.S. and a number of European automobile manufacturers. Because these manufacturers have adopted *Ultipor* filtration to save maintenance costs and downtime in a variety of their systems, many of their equipment suppliers have also begun to buy our products for installation on original equipment.

In addition to such applications on machine tools, injection molding machines, welding machines and other production equipment, a wide variety of mobile equipment uses have also been developed. These range from installations on fork lift trucks to garbage trucks, and from giant road building equipment to relatively small and highly sensitive seismographic equipment.



We have often said that this market is big (larger than our present total business), amorphous, and difficult to penetrate. Now the hard work of the past is coming to fruition. Our name is well established, our penetration has begun and we look forward to a long period of progress. Along with it we foresee increasing profitability, as the investment in missionary marketing work and product development we have made over the past few years starts to pay off.

It should be noted here that we have added a line of pneumatic filters to our fluid power line which also has good promise for growth over a period of years. These excellent products remove oil droplets and dirt from the compressed air lines which power many assembly tools and other devices, and thus prolong life and reduce downtime.

A distributor organization for this line is expected to be completed, at least in the United States, in 1974.



The new Grinding Gear Division at Saginaw, Mich., along with other divisions of companies now agrees that surface finish in the 1-5 micron range is essential and generate new contracts for work their way into the marketplace. All 47 of Saginaw's grinding shops will be equipped with 1 micron absolute accuracy solution to stopping contaminants from causing wear and components.



**RUSH • MEDICAL
SUPPLIES**



PALL ULTIPOR[®]
OXYGENATOR
LINE FILTERS



ULTIPOR
BLOOD
TRANSFUSION

RECEIVED
FBI
JAN 14 1964
DISCARD AFTER USE
DO NOT REUSE

ULTIMATE
NEED TO TRANSMISSION
FIELD

NEED TRANSFUSION

As indicated earlier in this report we decided to establish our own Biomedical distribution organization at the beginning of the fiscal year. By the year's end, we had done a substantial job of organizing it in the U.S., Canada and Europe.

Our concept in entering the Biomedical market was to satisfy what we saw as a considerable need for "patient protection filters." By this we mean filters used directly in connection with the patient, to protect him from bacteria or other particles in fluids being administered to him. Such fluids include blood, anesthetics, a variety of intravenously fed fluids, and gases used in inhalation therapy.

The use of most of these products is strongly influenced by the anesthesiologist, who works along with his colleagues in other specialties. Following our own successful introduction of blood filters for protection from microemboli (small particles) of patients undergoing open-heart surgery and for those receiving transfusions, we were able to find qualified regional distributors whose lines were generally of interest to anesthesiologists. As a result our organization fell into place quite rapidly.

Although we are relatively new in the Biomedical field, we have a long history of supplying filters for critical applications, with strict quality control. This has contributed to our present position of leadership in the fine filtration of blood—in the face of competition from three strong hospital supply companies, the last of which has only recently entered the market. Our concept of blood filtration is substantially differ-

ent from the other three, which are all similar to each other. And to our knowledge, ours is the only one backed by published clinical evidence of both safety and efficacy. In anesthesia administration, we do not know of another filter which has been successfully applied.

In the Biomedical field, as in our other areas of interest, we have a substantial research and development program under way. This effort includes further investigation of blood filtration, and a number of new product developments. The most important of these is a device for removing air bubbles, bacteria and other contaminants from intravenous fluids just before the fluids enter the patient's arm; and an autotransfusor for salvaging a patient's own blood during an operation, cleaning it, and returning it to him to avoid or minimize transfusions. If successful, either one of these products could conceivably develop a volume of sales as large as a complete product line in another of our markets.

Unlike our entry into other new fields, we have entered the hospital market profitably. In a short time we have succeeded in establishing a record and a reputation for excellence of products and service. We have also built a good marketing organization, and have a series of promising new products scheduled for introduction over the next two years.

We consider our ability to serve doctors and their patients to be excellent, and our prospects for success in this market to be just as good.

Sales and Income (000 omitted)

	1972	1971	1970	1969	1968
Net Sales	\$26,271	\$24,549	\$26,716	\$26,229	\$25,221
Earnings Before Taxes and Extraordinary					
Charges-Credits	622	559	454	876	532
Earnings Before Extraordinary Charges-Credits*	355	294	229	406	234

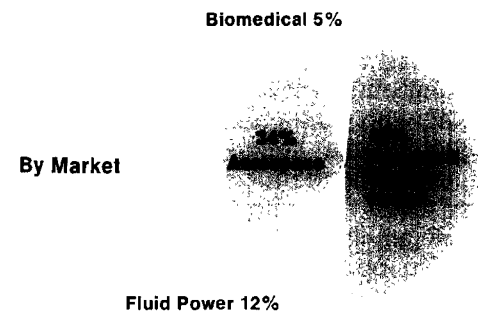
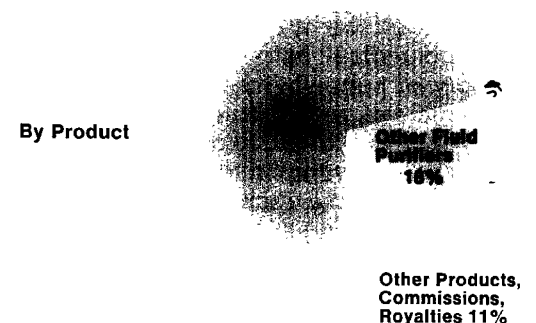
Financial Position (000 omitted)

Depreciation and Amortization	1,054	999	951	926	909
Cash Provided from Operations	1,409	1,293	1,180	1,332	1,143
Working Capital	10,881	11,360	11,216	11,292	11,803
Total Assets	28,888	27,762	28,520	26,021	24,461
Gross Investment in Plant and Equipment	15,463	13,941	13,785	12,841	11,398
Long-Term Debt	6,623	6,674	6,954	6,806	8,412
Stockholders' Equity	12,504	12,070	12,071	12,115	10,553

Per Share Data

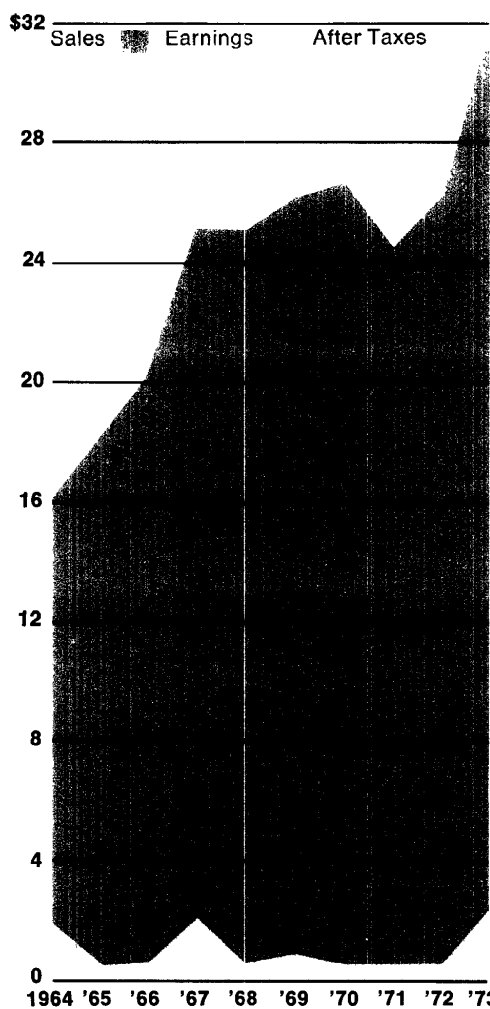
Average Shares Outstanding (000 omitted)	1,104	1,101	1,098	1,062	1,014
Earnings Before Extraordinary Charges-Credits					
Per Share	\$ 0.32	\$ 0.27	\$ 0.21	\$ 0.38	\$ 0.23
Dividends Per Class A Share	—	—	0.24	0.32	0.32
Stockholders' Equity Per Share	11.32	10.96	10.99	11.41	10.40
Gross Assets Per Share	26.16	25.22	25.96	24.51	24.11

*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.

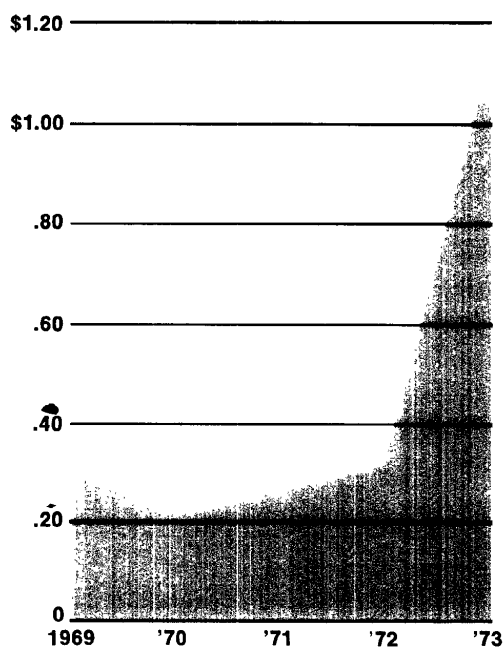

1973 Sales


1967	1966	1965	1964
\$25,378	\$20,096	\$17,991	\$16,040
2,182	551	491	1,984
1,077	175	203	1,004
846	768	737	717
1,923	943	940	1,721
8,874	7,587	6,329	6,174
24,779	21,717	20,215	18,544
10,838	9,901	9,547	7,655
5,673	5,860	4,302	4,092
10,183	9,175	9,337	9,668
937	936	934	933
\$ 1.15	\$ 0.19	\$ 0.22	\$ 1.08
0.32	0.32	0.32	0.307
10.86	9.81	10.00	10.36
26.43	23.21	21.65	19.87

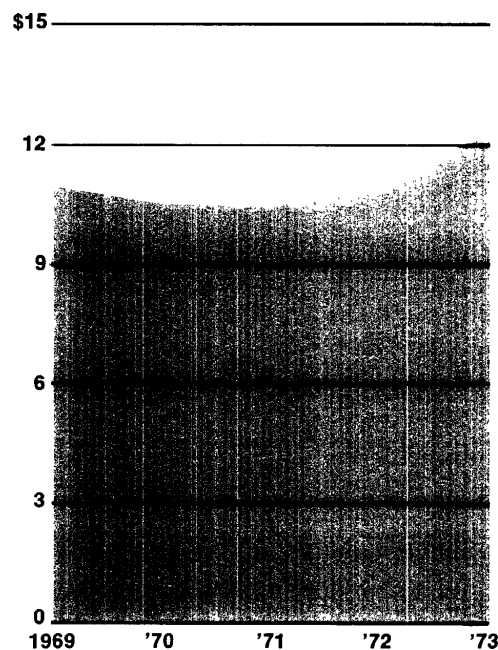
Sales and Earnings (in millions)



Earnings Per Share



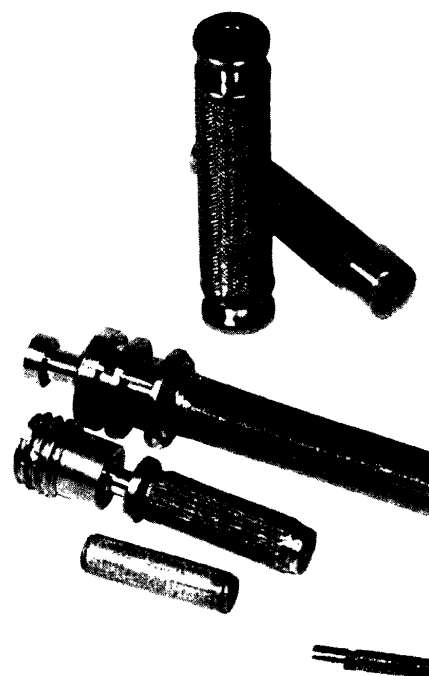
Book Value Per Share



Consolidated Statements of Earnings for the years ended July 31

	1972
Net sales	\$26,270,979
Cost of sales	17,026,262
Gross profit on sales	9,244,717
Selling, general and administrative expenses	8,646,015
Earnings from operations	598,702
Miscellaneous income	22,859
Earnings before provision for income taxes	621,561
Provision for income taxes	266,600
Earnings	<u>\$ 354,961</u>
Earnings per share:	
Primary	\$ 0.32
Fully diluted	0.32

Depreciation and amortization charges included in Cost of sales and Selling, general and administrative expenses amounted to \$1,128,140 and \$1,054,182 for the years ended July 31, 1973 and 1972, respectively.



Consolidated Statements of Capital in Excess of Par Value

for the years ended July 31

	1972
Balance, beginning of fiscal year	\$5,498,847
Add:	
Issuance of 150 shares of Common Stock pursuant to stock options	1,500
Conversion of \$78,000 of 6¼ % Convertible Subordinated Debentures into 3,900 shares of Common Stock	74,100
Capital in excess of par value at end of fiscal year	<u>\$5,574,447</u>

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.

Consolidated Statements of Retained Earnings

for the years ended July 31

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

Consolidated Statements of Changes in Financial Position

for the years ended July 31

Sources of Working Capital:

Operations:

Earnings	\$ 354,961
Depreciation and amortization	1,054,182
Deferred income taxes	57,656
Working capital provided from operations	<u>1,466,799</u>
Increase in long-term debt	717,500
Disposals of fixed assets	616,455
Proceeds of capitalized leases	6,515
Reduction (increase) in other assets, etc.	(52,509)
Issuance of stock pursuant to stock options	1,650
Issuance of stock upon conversion of debentures	78,000
Working capital provided	<u>2,834,410</u>

Uses of Working Capital:

Acquisitions of fixed assets	2,545,802
Reduction of long-term debt	689,763
Reduction of debt upon conversion of debentures	78,000
Working capital used	<u>3,313,565</u>

Increase (Decrease) in Working Capital	<u>\$ (479,155)</u>
---	----------------------------

Changes in Working Capital by Element:

Increase (decrease) in:

Cash	\$ (18,527)
Cash available under bank loan agreement	—
Accounts receivable	916,017
Other receivables and advances	(63,984)
Prepaid expenses	61,242
Merchandise inventory	(728,945)

Decrease (increase) in:

Notes payable	(398,246)
Accounts payable	(312,667)
Accrued expenses, taxes and sundry liabilities	319,883
Income taxes payable	(213,116)
Current portion of long-term debt	(40,812)

Increase (Decrease) in Working Capital	<u>\$ (479,155)</u>
---	----------------------------

These highly engineered, extremely small Pall filters are installed in hydraulic line fittings to assure "last chance" protection of components.

Consolidated Balance Sheets as of July 31

Assets

1972

Current Assets:

Cash	\$ 718,251
Cash available under bank loan agreement	—
Accounts receivable (net of estimated uncollectibles of \$126,968 and \$109,836, respectively)	6,664,106
Other receivables and advances	245,673
Prepaid expenses	230,414
Merchandise inventory	10,939,731
Total Current Assets	18,798,175

Fixed Assets—at Cost:

Land	296,157
Buildings, machinery, equipment, etc. (less accumu- lated depreciation of \$5,910,743 and \$6,073,574, respectively)	9,092,903
Total Fixed Assets	9,389,060

Other Assets:

Investments and receivables—long-term	138,368
Deferred charges, deposits, etc.	222,769
Intangibles (less accumulated amortization of \$276,242 and \$266,678, respectively)	339,681
Total Other Assets	700,818
Total	\$28,888,053

Notes to Consolidated Financial Statements July 31, 1973

The financial statements as at and for the year ended July 31, 1972 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, 1973 includes the following United States dollar amounts in respect of the consolidated foreign subsidiaries:

Current assets	\$6,207,640
Net fixed assets	2,889,581
Intangibles and other assets	102,296
Current liabilities	2,796,473
Long-term debt	321,310
Capitalized lease obligations	1,409,098
Unrealized gain on foreign exchange	69,796

The accounts of subsidiaries located outside the United States have been trans-

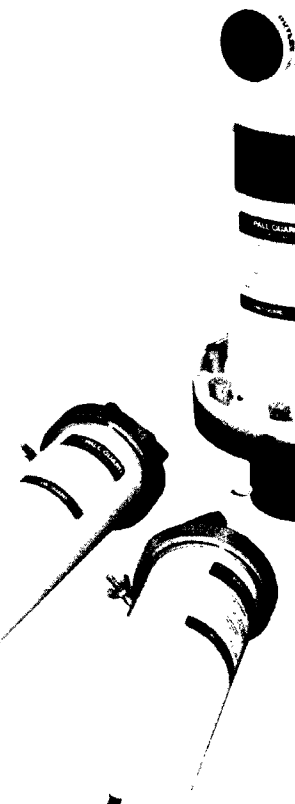
lated into U.S. dollars using rates of exchange as follows: current assets, current liabilities and long-term debt at current rates; non-current assets at historical rates; and income and expense accounts at the average rates prevailing during the year, except for depreciation expense which has been translated at the exchange rates prevailing when the related assets were acquired. The resulting gain from translation of \$69,796 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



Liabilities and Stockholders' Equity

1972

Current Liabilities:

Notes payable	\$ 3,494,645
Accounts payable	2,117,508
Accrued expenses, taxes and sundry liabilities	1,235,722
Income taxes payable	432,995
Current portion of long-term debt	636,264
Total Current Liabilities	<u>7,917,134</u>

Long-Term Debt

6,623,491

Other:

Capitalized lease obligations	1,364,907
Deferred income taxes	396,000
Unrealized gain on foreign exchange	82,089

Stockholders' Equity:

Common Stock, par value \$1.00 per share, 1,700,000 shares authorized, 1,107,328 shares issued and outstanding	1,107,328
Capital in excess of par value	5,574,447
Retained earnings	5,822,657
Total Stockholders' Equity	<u>12,504,432</u>
Total	<u>\$28,888,053</u>

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.

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, 1973. 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.

Federal Income Taxes:

United States income taxes have not been provided on the earnings of foreign subsidiaries, since management considers such earnings to be permanently invested abroad. The amount of such accumulated earnings at July 31, 1973 was \$516,000.

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

Investment tax credits are accounted for on the "flow through" method and are treated as a reduction of income tax expense in the year utilized. Such credits amounted to \$110,000 in 1973 and \$32,000 in 1972.

Pall Corporation has established a domestic international sales corporation (DISC), the earnings of which are partially deferred for tax purposes. Management considers such tax deferral to be permanent since it is intended to use these earnings to finance export operations. The accumulated earnings of the DISC on which income taxes have not been provided are \$252,000 at July 31, 1973.

Earnings Per Share:

Primary earnings per share has been computed based on the average number of shares outstanding during each year. Stock options were excluded from the computations since they were not dilutive during either 1973 or 1972.

Pall pneumatic filters remove destructive oil and dirt from the compressed air lines which power many assembly tools.

Fully diluted earnings per share was computed for 1973 assuming the conversion of the 6¼% Convertible Subordinated Debentures and the 5½% Subordinated Convertible Note, and the elimination of the related interest expense, net of tax effect. There was no material dilution in 1972.

Note 2—Inventory

Closing and opening inventories used in the computation of cost of sales for the year ended July 31, 1973 are as follows:

	July 31 1973	July 31 1972
Raw materials and components	\$ 6,153,587	\$ 5,699,704
Work in process	2,731,440	2,616,852
Finished goods	2,726,845	2,623,175
TOTAL	<u>\$11,611,872</u>	<u>\$10,939,731</u>

Note 3—Fixed Assets

	Cost	Accumulated Depreciation	Net
Machinery, equipment and improvements	\$ 8,244,086	\$4,057,323	\$4,186,763
Office furniture and fixtures	857,465	448,069	409,396
Transportation equipment	290,544	101,579	188,965
Buildings (1)	6,207,545	1,303,772	4,903,773
Land	296,157	—	296,157
TOTAL	<u>\$15,895,797</u>	<u>\$5,910,743</u>	<u>\$9,985,054</u>

(1) Includes real estate with a book value of approximately \$1,273,000 at July 31, 1973 utilized pursuant to capitalized lease obligations (see note 5).

Note 4—Long-Term Debt

	Due Within One Year	After One Year
6¾% Promissory Note due as follows: \$66,500 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 \$12,500,000 through July 31, 1974 (\$13,500,000 after July 31, 1974), and places certain restrictions on the creation of additional indebtedness and on various other corporate actions, including the payment of dividends. At July 31, 1973, the amount of consolidated retained earnings subject to restriction was \$6,253,643 and consolidated working capital (as defined) was \$13,755,196.	\$ 66,500	\$ 428,500

5½% Promissory Note due in annual installments of \$100,000 to November 1, 1977. The note agreement requires the Company to maintain consolidated working capital (as defined) at not less than \$12,500,000

through July 31, 1974 (\$13,500,000 thereafter but prior to August 1, 1975, and \$14,500,000 after July 31, 1975), and places certain restrictions on corporate actions identical with those imposed under the 6¾% note

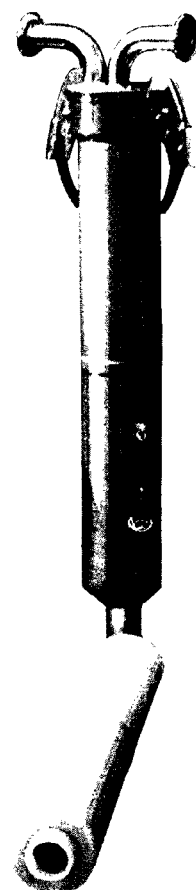
100,000 400,000

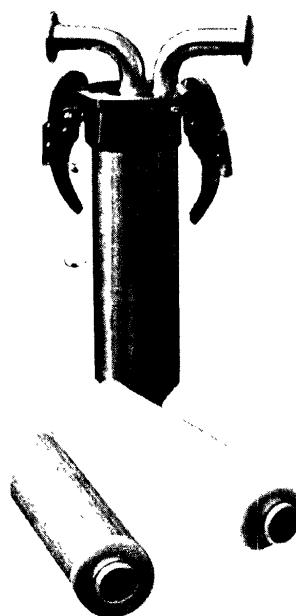
Promissory Notes (interest at 1% over prime rate) payable to two banks in maximum principal amount of \$3,900,000. The banks are committed to lend the Company up to the maximum principal amount through July 26, 1974, and any undrawn portion of the commitment bears interest at ¼ of 1% per year. The notes will be repaid by quarterly payments of \$62,500 each from October 31, 1973 to July 31, 1976; \$150,000 each from October 31, 1976 to July 31, 1977; \$225,000 each from October 31, 1977 to July 31, 1979; and \$187,500 from October 31, 1979 to July 31, 1980. The note agreement requires the Company to maintain consolidated working capital (as defined) at \$12,500,000 prior to August 1, 1974, \$13,500,000 thereafter but prior to August 1, 1975, and \$14,500,000 after July 31, 1975. The note agreement also places certain restrictions on the creation of additional indebtedness and on various other corporate actions, including the payment of dividends. At July 31, 1973, the amount of consolidated working capital (as defined) was \$13,827,591. The undrawn portion of the loans was \$1,400,000 at July 31, 1973 and is reflected as a current asset

250,000 3,650,000

6¼% 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, 1973 the amount of consolidated retained earnings subject to restriction pursuant to the indenture was \$5,125,808. The Debentures are convertible into Common Stock at a price of \$20.00 per share. Accordingly, 121,200 shares of Common Stock were reserved for this purpose at July 31, 1973.

— 2,424,000





Pall sterilizing filters are free of asbestos, capable of in-place steam sterilization, compatible with a wide range of fluids and have absolute retention ratings down to 0.2 microns.

5½% 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 6¾% Promissory Note and bears certain restrictions. The note agreement provides for the conversion of the note into Common Stock at a price of \$37.55 per share, subject to adjustment in certain circumstances. Accordingly, 9,321 shares of Common Stock were reserved for this purpose at July 31, 1973

100,000	250,000
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Mortgages payable at interest rates from 3% to 8½% are liens on land, buildings and equipment having a net book value of \$2,697,364 at July 31, 1973

168,574	1,388,595
---------	-----------

Term loan (interest at 1½% over First National City Bank, London base rate) due \$189,750 on December 31, 1973 and \$189,750 on December 31, 1974

189,750	189,750
<u>\$874,824</u>	<u>\$8,730,845</u>

TOTAL

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, 1973 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—Common Stock

On November 20, 1972 the stockholders approved a resolution to amend the Certificate of Incorporation and redesignate all Class A Stock as Common Stock.

No dividends were declared or paid during the year ended July 31, 1973.

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, 1972, 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 13 years after July 31, 1973 and annual rentals under such leases amount to approximately \$77,000. Total rental commitments under these leases aggregate approximately \$322,000.

Pall Corporation is contingently liable on a series of notes with a total face value of \$166,856, 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, 1973 was \$603,000.

On January 9, 1973, the United States Government instituted an action against Pall Corporation for \$659,739 alleged to be the damages resulting from defective pumps sold by a former Pall subsidiary (the Government being assignee of the customer). A motion has been filed to dismiss the complaint as being barred by the statute of limitations. Motion papers and memoranda of law have been presented, argument has been had and the motion is now under consideration by the judge. It is the opinion of counsel, based on their extensive conversations with officers and other employees of Pall Corporation and their review of the applicable law, that there is no merit to the Government's case.

Note 8—Stock Option Plans

The Pall Corporation
1966 Qualified 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 Common Stock to certain officers and employees of the Company and its subsidiaries.

The balance of unexercised optioned stock as at July 31, 1973 was as follows:

Date Granted	No. of Shares	Option Price	
		Per Share	Total
Aug. 30, 1968- Jan. 24, 1973	16,200	\$9.69-\$17.50	\$227,274

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, 1973 were for 5,660 shares. There were no options exercised during the year ended July 31, 1973.

The Pall Corporation

1973 Qualified Stock Option Plan:

The Pall Corporation 1973 Qualified Stock Option Plan was adopted by the Board of Directors on July 2, 1973, subject to stockholders' approval at the November 1973 stockholders' meeting. The Plan provides for the issuance of a maximum of 55,000 shares of the Company's Common Stock to certain officers and employees of the Company and its subsidiaries. Options granted under this Plan may not be exercised until the Plan has been approved by shareholders. The terms and conditions of options granted under the 1973 Plan are substantially the same as the terms and conditions of op-

tions granted under the 1966 Plan, except that the 1973 Plan permits payment of the exercise price in installments meeting the requirements of Regulation G of the Federal Reserve Board, and except that options granted under the 1973 Plan are exercisable in full from the outset.

Unexercised optioned stock as at July 31, 1973 was as follows:

Date Granted	No. of Shares	Option Price	
		Per Share	Total
July 2, 1973	46,500	\$10.75	\$499,875
July 18, 1973	8,500	12.875	109,438

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, 1973 was \$384,171. Aggregate amounts in pension and retirement funds exceeded the actuarially computed value of vested benefits at July 31, 1973. The aggregate liability for unfunded past service costs under the Pension Plan, to which major amendments were made effective August 1, 1971 and are first reflected this year, is estimated to be \$467,000 at July 31, 1973. Past service costs are being funded over a 30 year period.

Note 10—Interest Expense

Interest expense amounted to \$847,179 and \$790,384 for the fiscal years ended July 31, 1973 and 1972, respectively.

Auditor's Opinion

Board of Directors,
PALL CORPORATION
30 Sea Cliff Avenue
Glen Cove, N.Y. 11542

ROBBINS, GREENE & CO.
CERTIFIED PUBLIC ACCOUNTANTS
522 Fifth Avenue, New York, N.Y. 10036

We have examined the consolidated balance sheet of Pall Corporation and its subsidiaries as at July 31, 1973 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, 1973 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
September 28, 1973

Robbins, Greene & Co.

Officers

Dr. David B. Pall
Chairman of the Board
Abraham Krasnoff
President
Chesterfield F. Seibert
Senior Vice President
Maurice G. Hardy
Vice President
Sidney Krakauer
Vice President
Nicholas Nickolaus
Vice President
Henry Petronis
Vice President
Stanley Wernick
Vice President & Treasurer
Peter Schwartzman
Secretary
Donald M. Harris
Assistant Secretary

Directors

Dr. David B. Pall
Chairman
Abraham Appel
Albert H. Haas
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 & Mishkin
New York, N.Y.

Auditors

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

Registrar and Transfer Agent

Franklin National Bank
Corporate Trust Department
2 Broadway, New York, N.Y.

Annual Stockholders' Meeting
Tuesday, November 20, 1973, 2:30 P.M.
Harrison House of Glen Cove
Glen Cove, L.I., N.Y.

