PENTAIR INC
Form 10-Q/A
July 23, 2002
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 30, 2002

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-11625

Pentair, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	**41-0907434**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)
1500 County Road B2 West, Suite 400, St. Paul, Minnesota	**55113**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: (651) 636-7920

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

On April 26, 2002, 49,231,674 shares of the Registrant s common stock were outstanding.

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Explanatory Statement

We are amending our Quarterly Report on Form 10-Q for the quarter ended March 30, 2002, to give effect to the adoption of Emerging Issues Task Force (EITF) Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products.* This new guidance was effective for Pentair beginning January 1, 2002. Subsequent to the issuance of our financial statements for the quarter ended March 30, 2002, we determined that certain payments to our customers for cooperative advertising and certain sales incentive offers that were historically classified in selling, general and administrative expense be reclassified and shown as a reduction in net sales to comply with this new standard. The adoption of EITF 01-9 resulted in a reduction of previously reported first quarter 2002 and first quarter 2001 net sales (and an offsetting reduction of selling, general and administrative expense) of $10.4 million and $7.2 million, respectively. The resulting revisions made in this Form 10-Q/A for the adoption of this new accounting standard had no impact on our previously reported operating income, net income, or earnings per share.

The following sections of this first quarter 2002 10-Q/A differ from our first quarter 2002 10-Q filed on May 9, 2002:

ITEM 1. FINANCIAL STATEMENTS:

Condensed Consolidated Statements of Income (Unaudited);

Note 8 (Business Segments) of Notes to condensed consolidated financial statements (unaudited);

Note 9 (Retroactive Adoption of Emerging Issues Task Force (EITF) 01-9) of Notes to condensed consolidated financial statements (unaudited).

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Pentair, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(As restated, see note 9)

In thousands, except per-share data	Three months ended March 30 2002	Three months ended March 31 2001
Net sales	$ 603,063	$ 664,169
Cost of goods sold	466,052	507,396
Gross profit	137,011	156,773
Selling, general and administrative	82,920	96,178
Research and development	8,364	7,739
Operating income	45,727	52,856
Net interest expense	13,730	17,716
Other expense, write-off of investment		2,500
Income before income taxes	31,997	32,640
Provision for income taxes	10,559	12,077
Net income	$ 21,438	$ 20,563
Earnings per common share		
Basic	$ 0.44	$ 0.42
Diluted	$ 0.43	$ 0.42
Weighted average common shares outstanding		
Basic	49,173	49,006
Diluted	49,584	49,127
Cash dividends declared per common share	$ 0.18	$ 0.17

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

In thousands, except share and per-share data	March 30 2002	December 31 2001	March 31 2001
Assets			
Current assets			
Cash and cash equivalents	$ 20,946	$ 39,844	$ 33,003
Accounts and notes receivable, net	447,483	398,579	508,344
Inventories	295,391	300,923	383,194
Deferred income taxes	67,871	69,953	73,252
Prepaid expenses and other current assets	19,340	20,979	21,295
Net assets of discontinued operations	3,613	5,325	106,633
Total current assets	854,644	835,603	1,125,721
Property, plant and equipment, net	318,758	329,500	346,820
Other assets			
Goodwill, net	1,085,463	1,088,206	1,132,070
Other assets	116,833	118,889	66,373
Total assets	$ 2,375,698	$ 2,372,198	$ 2,670,984
Liabilities and Shareholders Equity			
Current liabilities			
Short-term borrowings	$	$	$ 170,111
Current maturities of long-term debt	5,972	8,729	24,569
Accounts and notes payable	197,407	179,149	224,293
Employee compensation and benefits	59,930	74,888	66,330
Accrued product claims and warranties	37,825	37,590	41,483
Income taxes	15,501	6,252	11,888
Other current liabilities	127,511	121,825	124,281
Total current liabilities	444,146	428,433	662,955
Long-term debt	689,136	714,977	782,173
Pension and other retirement compensation	75,858	74,263	61,141
Post-retirement medical and other benefits	43,367	43,583	34,103
Deferred income taxes	34,040	34,128	36,702
Other noncurrent liabilities	61,664	61,812	70,475
Total liabilities	1,348,211	1,357,196	1,647,549
Shareholders equity			
Common shares par value $0.16 2/3; 49,211,099, 49,110,859, and 49,020,742 shares issued and outstanding, respectively	8,201	8,193	8,170
Additional paid-in capital	481,690	478,541	475,520
Retained earnings	579,213	566,626	580,318
Unearned restricted stock compensation	(10,244)	(9,440)	(13,310)
Accumulated other comprehensive loss	(31,373)	(28,918)	(27,263)

Total shareholders equity	1,027,487	1,015,002	1,023,435
Total liabilities and shareholders equity	$ 2,375,698	$ 2,372,198	$ 2,670,984

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

In thousands	Three months ended March 30 2002	Three months ended March 31 2001
Operating activities		
Net income	$ 21,438	$ 20,563
Depreciation	15,035	16,854
Amortization of intangibles and unearned compensation	864	9,884
Deferred income taxes	2,089	(880)
Other expense, write-off of investment		2,500
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts and notes receivable	(48,583)	(45,438)
Inventories	3,255	6,615
Prepaid expenses and other current assets	1,146	(3,969)
Accounts payable	21,318	(22,866)
Employee compensation and benefits	(13,768)	(16,832)
Accrued product claims and warranties	287	(552)
Income taxes	9,295	6,791
Other current liabilities	8,051	(3,425)
Pension and post-retirement benefits	2,506	2,930
Other assets and liabilities	(2,879)	(2,378)
Net cash provided by (used for) continuing operations	20,054	(30,203)
Net cash provided by (used for) discontinued operations	1,712	(9,894)
Net cash provided by (used for) operating activities	21,766	(40,097)
Investing activities		
Capital expenditures	(6,980)	(12,859)
Proceeds from sale of businesses	1,138	
Acquisitions, net of cash acquired		(6,937)
Equity investments	(2,081)	
Other	(165)	
Net cash used for investing activities	(8,088)	(19,796)
Financing activities		
Net short-term borrowings		62,016
Proceeds from long-term debt	45	2,413
Repayment of long-term debt	(27,736)	(1,189)
Proceeds from exercise of stock options	1,490	251
Dividends paid	(8,851)	(8,331)
Net cash provided by (used for) financing activities	(35,052)	55,160
Effect of exchange rate changes on cash	2,476	2,792
Change in cash and cash equivalents	(18,898)	(1,941)
Cash and cash equivalents, beginning of period	39,844	34,944
Cash and cash equivalents, end of period	$ 20,946	$ 33,003

See accompanying notes to condensed consolidated financial statements.

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Pentair, Inc. and subsidiaries
Notes to condensed consolidated financial statements (unaudited)

1. Basis of Presentation and Responsibility for Interim Financial Statements
We prepared the unaudited condensed consolidated financial statements following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States can be condensed or omitted. We made certain reclassifications to the 2001 condensed consolidated financial statements to conform to the 2002 presentation.

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto which are included in our 2001 Annual Report on Form 10-K.

Revenues, expenses, cash flows, assets and liabilities can and do vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year.

2. New Accounting Standards
In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. Instead of amortizing goodwill and intangible assets deemed to have an indefinite life, the statement requires a test for impairment to be performed annually, or immediately if conditions indicate that such an impairment could exist. We adopted the provisions of SFAS 142 effective January 1, 2002, and as a result, will no longer record goodwill amortization (2001 goodwill amortization was $36.1 million, or $32.0 million after tax or $0.65 per diluted share). We are currently in the process of completing the first step of the initial goodwill impairment test required by SFAS 142 and will complete this assessment in the second quarter of 2002.

The following table provides the comparable effects of the adoption of SFAS No. 142 for the quarters ended March 30, 2002 and March 31, 2001.

In thousands, except per-share data	**Three months ended March 30 2002**	**Three months ended March 31 2001**
Reported net income	$ 21,438	$ 20,563
Add back goodwill amortization, net of tax		8,000
Adjusted net income	$ 21,438	$ 28,563
Reported earnings per share basic	$ 0.44	$ 0.42
Goodwill amortization		0.16
Adjusted net earnings per share basic	$ 0.44	$ 0.58
Reported earnings per share diluted	$ 0.43	$ 0.42
Goodwill amortization		0.16
Adjusted net earnings per share diluted	$ 0.43	$ 0.58

The changes in the carrying amount of goodwill for the quarter ended March 30, 2002 by operating segment is as follows:

In thousands	**Tools**	**Water**	**Enclosures**	**Consolidated**
Balance December 31, 2001	$ 344,707	$ 576,757	$ 166,742	$ 1,088,206
Foreign currency translation	(79)	(1,262)	(1,402)	(2,743)

Balance March 30, 2002	$ 344,628	$ 575,495	$ 165,340	$ 1,085,463

In August 2001, the FASB issued SFAS No. 143 (SFAS 143), *Accounting for Asset Retirement Obligations*, which is effective January 1, 2003. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. We are currently in the process of evaluating the effect the adoption of this standard will have on our consolidated results of operations, financial position and cash flows.

In September 2001, the FASB issued SFAS No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, it retains many of the fundamental provisions of that statement. The adoption of this standard on January 1, 2002 did not have an effect on our historical consolidated results of operations, financial position and cash flows.

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Pentair, Inc. and subsidiaries
Notes to condensed consolidated financial statements (unaudited) (continued)

3. Earnings Per Common Share

Basic and diluted earnings per share were calculated using the following:

In thousands, except per-share data	**Three months ended**	
	March 30 2002	**March 31 2001**
Net income	$ 21,438	$ 20,563
Weighted average common shares outstanding basic	49,173	49,006
Dilutive impact of stock options and restricted stock	411	121
Weighted average common shares outstanding diluted	49,584	49,127
Earnings per common share basic	$ 0.44	$ 0.42
Earnings per common share diluted	$ 0.43	$ 0.42

There were 1.1 million and 1.7 million stock options excluded from the computation of diluted earnings per share in the first quarter of 2002 and 2001, respectively, due to their anti-dilutive effect.

4. Inventories

Inventories were comprised of:

In thousands	**March 30 2002**	**December 31 2001**	**March 31 2001**
Raw materials and supplies	$ 91,847	$ 94,404	$ 114,545
Work-in-process	36,973	38,760	47,485
Finished goods	166,571	167,759	221,164
Total inventories	$ 295,391	$ 300,923	$ 383,194

5. Comprehensive Income

Comprehensive income and its components, net of tax, are as follows:

In thousands	**Three months ended**	
	March 30 2002	**March 31 2001**
Net income	$ 21,438	$ 20,563
Changes in cumulative translation adjustment	(4,318)	(7,519)
Changes in market value of derivative financial instruments classified as cash flow hedges	1,863	717
Unrealized loss from marketable securities classified as available for sale		(449)
Cumulative effect of accounting change SFAS 133		6,739
Comprehensive income (loss)	$ 18,983	$ 20,051

6. Restructuring Charge

In the fourth quarter of 2001, we initiated a restructuring program designed to consolidate manufacturing operations and eliminate non-critical support facilities in our Enclosures segment. We also wrote off internal-use software development costs at corporate for the abandonment of a company-wide human resource system. Consequently, we recorded a restructuring charge of $42.8 million. Cash outlays associated with the charge were $2.0 million in the first quarter of 2002.

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Pentair, Inc. and subsidiaries
Notes to condensed consolidated financial statements (unaudited) (continued)

The components of the restructuring charge and utilization are as follows:

In thousands	2001 restructuring charge (fourth quarter)	Utilization Year 2001	Utilization Three months 2002	Balance March 30 2002
Employee termination benefits	$ 16,696	$ (2,464)	$ (1,522)	$ 12,710
Non-cash asset disposals	11,050	(11,050)		
Impaired goodwill	7,362	(7,362)		
Exit costs	7,649	(769)	(501)	6,379
Total	42,757	(21,645)	(2,023)	19,089

Included in *other current liabilities* on the March 30, 2002 condensed consolidated balance sheet is the unused portion of the restructuring charge liability of $19.1 million. We expect to complete the remaining restructuring activities in second half of 2002.

Workforce reductions related to the 2001 restructuring charge is for approximately 720 employees, of whom 586 were terminated as of the end of the first quarter of 2002. Employee termination benefits consist primarily of severance and outplacement counseling fees. Exit costs relate to the shutdown of six Enclosures segment facilities, of which two are owned and currently held for resale and four are leased.

7. Equity Method Investments

We have invested approximately $24.9 million to take a 40 percent interest in certain joint venture operations of an Asian supplier for bench and portable tools, of which $22.5 million has been paid ($2.1 million was paid in the first quarter of 2002) and $2.4 million is included in *other current liabilities*. We hold an option to increase our ownership interest in these joint ventures to as much as 100 percent. Our portion of the earnings of these joint ventures is included in *costof goods sold*, however, it is not material.

8. Business Segments

Financial information by reportable business segment is included in the following summary:

In thousands	Three months ended March 30 2002	Three months ended March 31 2001
Net sales to external customers		
Tools	$ 252,092	$ 234,404
Water	211,411	219,626
Enclosures	139,560	210,139
Consolidated	$ 603,063	$ 664,169
Operating income (loss) as reported		
Tools	$ 16,686	$ 7,863
Water	29,747	28,193
Enclosures	4,608	21,237
Other	(5,314)	(4,437)
Consolidated	$ 45,727	$ 52,856
Goodwill amortization		

Tools	$	$ 2,319
Water		4,549
Enclosures		2,146
Total goodwill amortization		9,014
Amortization of unearned compensation	864	870
Total amortization	$ 864	$ 9,884
Operating income (loss) excluding goodwill amortization		
Tools	$ 16,686	$ 10,182
Water	29,747	32,742
Enclosures	4,608	23,383
Other	(5,314)	(4,437)
Consolidated	$ 45,727	$ 61,870

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Pentair, Inc. and subsidiaries
Notes to condensed consolidated financial statements (unaudited) (continued)

Other operating income (loss) is primarily composed of corporate expenses, our insurance subsidiary, intermediate finance companies, divested operations, discontinued operations, and intercompany eliminations.

9. Retroactive Adoption of Emerging Issues Task Force (EITF) 01-9

Subsequent to the issuance of our financial statements for the quarter ended March 30, 2002, we determined that certain payments to our customers for cooperative advertising and certain sales incentive offers that were historically classified in selling, general and administrative expense should be reclassified and shown as a reduction in net sales to comply with EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products*. EITF 01-9 is effective for periods beginning after December 15, 2001 and requires the reclassification of previously reported results of operations for periods prior to adoption to conform to the current presentation. Accordingly, the adoption of EITF 01-9 resulted in a reduction of previously reported first quarter 2002 and first quarter 2001 net sales (and an offsetting reduction of selling, general and administrative expense) of $10.4 million and $7.2 million, respectively. Application of EITF 01-9 had no impact on our previously reported operating income, net income, or earnings per share.

The following table reconciles financial information as originally reported for the first three months of 2002 and 2001 to the restated amounts for the retroactive adoption of EITF 01-9.

	Three months ended March 30, 2002		
In thousands	**As originally reported**	**EITF 01-9 reclassification**	**As restated**
Net sales	$ 613,435	$ (10,372)	$ 603,063
Cost of goods sold	466,052		466,052
Gross profit	147,383	(10,372)	137,011
% of net sales	*24.0%*		*22.7%*
Selling, general and administrative	93,292	(10,372)	82,920
% of net sales	*15.2%*		*13.7%*
Research and development	8,364		8,364
% of net sales	*1.4%*		*1.4%*
Operating income	45,727		45,727
% of net sales	*7.5%*		*7.6%*
Net interest expense	13,730		13,730
% of net sales	*2.2%*		*2.3%*
Income before income taxes	31,997		31,997
% of net sales	*5.2%*		*5.3%*
Provision for income taxes	10,559		10,559
Effective tax rate	*33.0%*		*33.0%*
Net income	$ 21,438	$	$ 21,438
% of net sales	*3.5%*		*3.6%*

	Three months ended March 31, 2001		
In thousands	**As originally reported**	**EITF 01-9 reclassification**	**As restated**
Net sales	$ 671,383	$ (7,214)	$ 664,169

Cost of goods sold	507,396		507,396
Gross profit	163,987	(7,214)	156,773
% of net sales	*24.4%*		*23.6%*
Selling, general and administrative	103,392	(7,214)	96,178
% of net sales	*15.4%*		*14.5%*
Research and development	7,739		7,739
% of net sales	*1.2%*		*1.2%*
Operating income	52,856		52,856
% of net sales	*7.9%*		*8.0%*
Net interest expense	17,716		17,716
% of net sales	*2.6%*		*2.7%*
Other expense, write-off of investment	2,500		2,500
% of net sales	*0.4%*		*0.4%*
Income before income taxes	32,640		32,640
% of net sales	*4.9%*		*4.9%*
Provision for income taxes	12,077		12,077
Effective tax rate	*37.0%*		*37.0%*
Net income	$ 20,563	$	$ 20,563
% of net sales	*3.1%*		*3.1%*

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

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report may contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expected, intend, estimate, anticipate, believe, project, or continue, or the negative thereof or similar words. F time, we also may provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this report and in any public statements we make could be materially different from actual results. They can be affected by assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. Investors are cautioned not to place undue reliance on any forward-looking statements. Investors should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all-potential risks and uncertainties.

Any change in the following factors may impact the achievement of results:

- changes in industry conditions, such as:
  - the strength of product demand;
  - the intensity of competition;
  - pricing pressures;
  - market acceptance of new product introductions;
  - the introduction of new products by competitors;
  - our ability to source components from third parties without interruption and at reasonable prices; and
  - the financial condition of our customers.
- changes in our business strategies, including acquisition, divestiture, and restructuring activities;
- governmental and regulatory policies;
- general economic conditions, such as the rate of economic growth in our principal geographic or product markets or fluctuations in exchange rates;
- changes in operating factors, such as continued improvement in manufacturing activities and the achievement of related efficiencies;
- inventory risks due to shifts in market demand; and
- our ability to accurately evaluate the effects of contingent liabilities such as taxes, product liability, environmental, and other claims.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that would impact our business.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2001 Annual Report on Form 10-K. The accounting policies used in preparing our interim 2002 condensed consolidated financial statements are the same as those described in our annual report, except as described in Note 2 of this report *New Accounting Standards.*

In preparing the financial statements, we follow accounting principles generally accepted in the United States of America, which in many cases require us to make assumptions, estimates and judgments that affect the amounts reported. Many of these policies are relatively straightforward. There are, however, a few policies that are critical because they are important in determining the financial condition and results of operations and they can be difficult to apply. Our critical accounting policies include those related to:

the collectibility of accounts receivable;

the valuation of inventories and reserves to adjust inventory to the lower of cost or market;

estimating sales returns and warranty costs;

self-insurance reserves for product liability, workers compensation, and employee medical liabilities;

assumptions used in the valuation of environmental remediation costs and pending litigation;

the resolution of matters related to open tax years;

the evaluation of long-lived assets, including goodwill, for impairment; and

accounting for pensions and other post-retirement benefits, because of the importance of management judgment in making the estimates necessary to apply these policies.

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NEW ACCOUNTING STANDARDS Also see Note 2 and Note 9 of ITEM 1

We adopted three new accounting standards during the first quarter of 2002:

SFAS No. 142, *Goodwill and Other Intangible Assets;*

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets;* and

EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor s Products.*

SFAS No. 142 requires that goodwill and intangible assets deemed to have an indefinite life no longer be amortized effective January 1, 2002. Prior to adoption of this standard, goodwill amortization was included as a part of selling, general and administrative expense. This standard did not require restatement of prior period amounts to be consistent with the current year presentation. We have included supplemental financial tables in the following discussion that show the effect of excluding goodwill amortization for the prior year period to be comparable with the current year presentation.

SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets effective January 1, 2002. The adoption of this standard did not have an effect on our historical consolidated results of operations, financial position and cash flows.

As discussed in Note 9 to the financial statements, we restated our previously reported results of operations for the adoption of EITF 01-9 which requires certain payments to our customers for cooperative advertising and certain sales incentive offers that were historically classified in selling, general and administrative expense be reclassified and shown as a reduction in net sales. EITF 01-9 is effective for periods beginning after December 15, 2001 and requires the reclassification of previously reported results of operations for periods prior to adoption to conform to the current presentation. Accordingly, the adoption of EITF 01-9 resulted in a reduction of previously reported first quarter 2002 and first quarter 2001 net sales (and an offsetting reduction of selling, general and administrative expense) of $10.4 million and $7.2 million, respectively. Application of EITF 01-9 had no impact on our previously reported operating income, net income, or earnings per share. The accompanying discussion and analysis gives effect to that restatement.

RESULTS OF OPERATIONS

Net sales

The components of the net sales decrease was as follows:

Percentages	% change from 2001 First quarter
Volume	(8.4)
Price	(0.3)
Currency	(0.5)
Total	(9.2)

Net sales in the first quarter of 2002 totaled $603.1 million, compared with $664.2 million in the first quarter of 2001. The $61.1 million or 9.2 percent decline was primarily due to volume declines in our Enclosures and Water segments, partially offset by a volume increase in our Tools segment. The stronger U.S. dollar also reduced the dollar value of foreign sales by about 0.5 percent.

Sales by segment and the change from the prior year period was as follows:

	Three months ended			
In thousands	March 30 2002	March 31 2001	$ change	% change
Tools	$ 252,092	$ 234,404	$ 17,688	7.5%
Water	211,411	219,626	(8,215)	(3.7%)

Enclosures	139,560	210,139	(70,579)	(33.6%)
Total	$ 603,063	$ 664,169	$ (61,106)	(9.2%)

Tools

The 7.5 percent increase in Tools segment sales in the first quarter of 2002 from 2001 was primarily driven by:

higher sales volume in our DeVilbiss Air Power Company (DAPC) business, particularly for pressure washers and incremental sales of generators due to a January 2002 ice storm in the Midwest.

This increase was partially offset by:

slight decreases in average selling prices due to higher year-over-year cooperative advertising costs.

Water

The 3.7 percent decline in Water segment sales in the first quarter of 2002 from 2001 was primarily due to:

lower sales of pool and spa equipment products due to timing of orders;

lower sales of pressure vessels for large water treatment systems; and

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- unfavorable impacts of foreign currency translation.

These declines were partially offset by:

- higher sales volume for our municipal and residential pumps; and
- slight increases in average selling prices.

While we experienced lower Water segment sales volume in the first quarter of 2002 compared with 2001, backlog was up about 6 percent from prior year levels going into the second quarter, primarily driven by strong orders in our pool and spa equipment business.

Enclosures

The 33.6 percent decline in Enclosures segment sales in the first quarter of 2002 from 2001 was primarily due to:

- lower sales volume due to significant industry-wide sales declines, reflecting severely reduced capital spending in the industrial market and over-capacity and lack of demand in the datacom and telecom markets; and
- unfavorable impacts of foreign currency translation.

Although we experienced significantly lower Enclosures sales volume from first quarter 2001 levels, sales in the North American industrial market increased about 5 percent from the fourth quarter of 2001. In addition, we have also experienced an increase in automotive quote activity over the fourth quarter of 2001 and there may be early signs of recovery in the North American base electronics market as well. The worldwide datacom and telecom markets, however, continue to suffer from over-capacity and a lack of demand.

We are pursuing several strategies aimed at improving our Enclosures segment performance by continuing to expand our distribution network, principally in the commercial market. In the first quarter of 2002, we added 99 new distributors and we expect to add another 300 distribution locations in the near future.

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Supplemental Financial Information

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. The following supplemental condensed consolidated statements of income are presented as if we had accounted for goodwill under SFAS 142 for all prior periods (i.e., no longer amortizing goodwill). The following table shows selected as reported and as adjusted numbers had we been accounting for goodwill under SFAS 142 for the quarter ended March 31, 2001.

	Three months ended March 31, 2001		
In thousands, except per-share data	**As reported**	**Goodwill amortization**	**As adjusted**
SG&A	$ 96,178	$ (9,014)	$ 87,164
Operating income	52,856	9,014	61,870
Provision for income taxes	12,077	1,014	13,091
Net income	20,563	8,000	28,563
Earnings per share diluted	$ 0.42	$ 0.16	$ 0.58

Supplemental Condensed Consolidated Statements of Income

	Three months ended		
In thousands	**March 30 2002**	**March 31 2001 As adjusted (1)**	**Percentage point change**
Net sales	$ 603,063	$ 664,169	
Cost of goods sold	466,052	507,396	
Gross profit	137,011	156,773	
% of net sales	*22.7%*	*23.6%*	*(0.9) pts*
Selling, general and administrative (SG&A) (1)	82,920	87,164	
% of net sales	*13.7%*	*13.1%*	*0.6 pts*
Research and development (R&D)	8,364	7,739	
% of net sales	*1.4%*	*1.2%*	*0.2 pts*
Operating income	45,727	61,870	
% of net sales	*7.6%*	*9.3%*	*(1.7) pts*
Net interest expense	13,730	17,716	
% of net sales	*2.3%*	*2.7%*	*(0.4) pts*
Other expense, write-off of investment		2,500	
% of net sales	*n/a*	*0.4%*	
Income before income taxes	31,997	41,654	
% of net sales	*5.3%*	*6.3%*	*(1.0) pts*
Provision for income taxes (1)	10,559	13,091	
Effective tax rate	*33.0%*	*31.4%*	*1.6 pts*
Net income	$ 21,438	$ 28,563	
% of net sales	*3.6%*	*4.3%*	*(0.7) pts*

Percentages may reflect rounding adjustments.
n/a not applicable.
(1) First quarter 2001 numbers have been adjusted to exclude goodwill amortization as noted above.

Gross profit

Gross profit margin was 22.7 percent of net sales in the first quarter of 2002, compared with 23.6 percent of net sales for the same period last year.

The 0.9 percentage point decline in the first quarter of 2002 from 2001 was primarily the result of:

- lower sales volume, primarily in our Enclosures segment resulting in unabsorbed overhead, partially offset by savings resulting from our supply chain management and lean enterprise initiatives; and

- higher cooperative advertising costs, primarily in our Tools segment.

SG&A and R&D

SG&A expense in the first quarter of 2002 was $82.9 million, compared with $87.2 million (excluding goodwill amortization of $9.0 million) in the first quarter of 2001, or 13.7 and 13.1 percent of sales, respectively. The 0.6 percentage point increase is largely the result of Enclosures segment sales declining at a much faster rate than the decline in SG&A spending.

R&D expense was $8.4 million in the first quarter of 2002, compared with $7.7 million in the first quarter of 2001, or 1.4 and 1.2 percent of sales, respectively. The year-over-year increase is primarily the result of additional investments related to new product development initiatives in our Tools segment.

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Operating income

Tools

The following table provides a comparison of Tools segment operating income as reported, and those results as if we had accounted for goodwill under SFAS 142 for all prior periods presented:

In thousands	Three months ended March 30 2002	Three months ended March 31 2001
Tools		
Operating income as reported	$ 16,686	$ 7,863
Add back goodwill amortization		2,319
Adjusted operating income	$ 16,686	$ 10,182
% of net sales	*6.6%*	*4.3%*
Percentage point change	*2.3pts*	

The 2.3 percentage point increase in first quarter 2002 operating income margin excluding 2001 goodwill amortization for our Tools segment was primarily the result of:

cost savings as a result of our supply management and lean enterprise initiatives; and

higher sales volume (particularly for pressure washers), partially offset by decreases in average selling prices due to higher year-over-year cooperative advertising costs.

These increases were partially offset by:

higher R&D expense related to new product development initiatives.

Water

The following table provides a comparison of Water segment operating income as reported, and those results as if we had accounted for goodwill under SFAS 142 for all prior periods presented:

In thousands	Three months ended March 30 2002	Three months ended March 31 2001
Water		
Operating income as reported	$ 29,747	$ 28,193
Add back goodwill amortization		4,549
Adjusted operating income	$ 29,747	$ 32,742
% of net sales	*14.1%*	*14.9%*
Percentage point change	*(0.8) pts*	

The 0.8 percentage point decline in first quarter 2002 operating income margin excluding 2001 goodwill amortization for our Water segment was primarily the result of:

lower sales of pool and spa equipment products due to timing of orders;

temporary declines in productivity at our pool business associated with production line rationalization between our factories in California and North Carolina; and

lower sales of pressure vessels for large water treatment systems.

These decreases were partially offset by:

cost improvements as a result of our lean enterprise initiatives; and

slight increases in average selling prices.

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Enclosures

The following table provides a comparison of Enclosures segment operating income as reported, and those results as if we had accounted for goodwill under SFAS 142 for all prior periods presented:

	Three months ended	
In thousands	**March 30 2002**	**March 31 2001**
Enclosures		
Operating income as reported	$ 4,608	$ 21,237
Add back goodwill amortization		2,146
Adjusted operating income	$ 4,608	$ 23,383
% of net sales	*3.3%*	*11.1%*
Percentage point change	*(7.8) pts*	

The 7.8 percentage point decline in first quarter 2002 operating income margin excluding 2001 goodwill amortization for our Enclosures segment was primarily the result of:

- lower sales volume due to significant industry-wide sales declines, resulting in unabsorbed overhead despite reductions in overall cost structure; and
- higher SG&A expense as a percent of sales, as the decline in sales was at a much faster rate than the reduction in costs.

These decreases were partially offset by:

- savings realized as a part of our restructuring program, net of one-time nonrecurring costs; and
- material cost savings and other cost reductions as a result of our lean enterprise initiatives.

Net interest expense

Net interest expense was $13.7 million and $17.7 million in the first quarter of 2002 and 2001, respectively. Included in the $13.7 million, is a write-off of $1.8 million of financing costs related to excess capacity on certain credit facilities that we do not expect to utilize. Excluding the $1.8 million write-off, net interest expense declined $5.8 million reflecting lower average borrowings driven by our strong cash flow performance and lower interest rates on our variable debt. Net interest expense in the fourth quarter of 2001 was $13.1 million.

Provision for income taxes

Our effective tax rate was 33.0 percent in the first quarter of 2002, compared with 31.4 percent, as if we had accounted for goodwill under SFAS 142 (37.0 percent as reported), for the comparable period in 2001. The 1.6 percentage point increase reflects a change in U.S. versus foreign earnings mix in 2002 compared to 2001. We expect our effective tax rate to be around 33.0 percent for 2002.

Other expense

In the first quarter of 2001, we incurred a non-cash charge of $2.5 million for the write-off of our business-to-business e-commerce equity investment that we made in early 2000.

LIQUIDITY AND CAPITAL RESOURCES

To fund capital expenditures, acquisitions, repurchase shares, and pay dividends, committed revolving credit facilities are used to complement operating cash flows. Because of the seasonality of some of our businesses, particularly the pool and spa equipment business and the tools business, we generally experience negative cash flows from operations in the first half of any given year. However, due to our emphasis on working capital management, we generated $21.8 million of cash from operating activities in the first quarter of 2002, which (net of $7.0 million of capital expenditures) resulted in a positive free cash flow (defined below) of $14.8 million.

The following table presents selected measures of our liquidity calculated from our monthly operating results based on a 13-month moving average:

Days	**March 30 2002**	**March 31 2001**
Days of sales in accounts receivable	64	69
Days inventory on hand	72	80
Days in accounts payable	58	60
Cash conversion cycle	78	89

Operating activities

Operating activities provided $21.8 million in the first quarter of 2002, compared with a use of $40.1 million for the same period in 2001 for a year-over-year improvement of $61.9 million. The increase was primarily the result of higher accounts payable balances at the end of the first quarter of 2002 compared with the end of 2001, driven by increased material purchases, higher inventory turnover, and improved sell through of products in our Tools segment. In addition, the disposition of our Equipment segment businesses at the end of 2001 provided a year-over-year improvement of $11.6 million.

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Investing activities

Capital expenditures in the first quarter of 2002 and 2001 were $7.0 million and $12.9 million, respectively. We anticipate capital expenditures in 2002 to be approximately $50 million. Anticipated expenditures in 2002 are expected to be in the areas of tooling for new product development and general maintenance capital.

Financing activities

As of the end of the first quarter of 2002, our capital structure was comprised of $695.1 million in long-term debt (including current maturities), and $1,027.5 million in shareholders equity. The ratio of debt-to-total capital as of the end of the first quarter of 2002 was 40.4 percent, compared with 41.6 percent as of the end of 2001 and 48.8 percent as of the end of the first quarter of 2001. The 1.2 percentage point decline from the end of 2001 reflects a decrease in our total debt and an increase in our equity resulting from our strong cash flow performance. Our targeted debt-to-total capital ratio is around 40 percent. As of March 30, 2002, we had $705.0 million in committed revolving credit facilities with various banks, of which $403.4 million was unused.

In March 2002, we entered into an interest rate swap agreement for senior notes having a notional principal amount of $100 million and maturing in 2009. Under the terms of the interest rate swap agreement, we will pay interest semi-annually at the six month LIBOR rate plus 2.49 percent and we will receive interest semi-annually at the annual rate of 7.85 percent. This swap agreement has been accounted for as a fair value hedge in accordance with SFAS No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended. Since this swap qualifies as an effective hedge under SFAS 133, changes in the fair value of the swap are offset by the effect of the swap on reported net interest expense. Consequently, there is no impact on net income or shareholders equity.

Dividends paid in the first quarter of 2002 were $8.9 million or $0.18 per common share, compared with $8.3 million or $0.17 per common share for the same period in 2001.

In addition to measuring our cash flow generation or usage based upon operating, investing, and financing classifications included in the condensed consolidated statements of cash flows, we also measure our free cash flow. We define free cash flow as cash flow from operating activities less capital expenditures, including both continuing and discontinued operations. We had positive free cash flow of $14.8 million in the first quarter of 2002, compared with a negative $53.0 million for the same period in 2001. Our free cash flow goal for 2002 is $200 million, compared with $178.7 million realized in 2001. We intend to achieve this goal through higher earnings and further reductions in working capital. Our management incentive plans include a component that emphasizes free cash flow.

We believe cash generated from operating activities, together with credit available under committed and uncommitted facilities and our current cash position, will provide adequate short-term and long-term liquidity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the quarter ended March 30, 2002. For additional information, refer to Item 7A on page 24 of our 2001 Annual Report on Form 10-K.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Environmental, Product Liability Claims, and Horizon Litigation
There have been no further material developments regarding the above from that contained in our 2001 Annual Report on Form 10-K.

Other
We are occasionally a party to litigation arising in the normal course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities based on the expected eventual disposition of these matters. We believe the effect on our consolidated results

ITEM 4. Submission of Matters to a Vote of Security Holders

At Pentair s Annual Meeting of Shareholders held on May 1, 2002, the shareholders voted on the following items:

Proposal 1. Election of Directors

Nominees	Votes For	Votes Withheld
Barbara B. Grogan	42,320,765	1,313,964
Stuart Maitland	42,019,456	1,615,273
Augusto Meozzi	41,976,660	1,658,069
William H. Hernandez	41,748,445	1,886,284

Proposal 2. Approval of amendments to the Articles of Incorporation and By-Laws to fix the number of the directors at ten.

Votes For	Votes Against	Votes Abstain
43,087,817	392,347	154,565

Proposal 3. Approval of the Omnibus Stock Incentive Plan for Section 162(m) purposes.

Votes For	Votes Against	Votes Abstain
40,463,447	2,898,214	273,068

Proposal 4. Approval of an amendment to the Executive Officer Performance Plan.

Votes For	Votes Against	Votes Abstain
39,850,853	3,472,260	311,616

Proposal 5. Proposal to ratify the selection of Deloitte & Touche LLP as independent auditors of Pentair for 2002.

Votes For	Votes Against	Votes Abstain
41,470,882	2,010,788	153,059

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Second Restated Articles of Incorporation of Pentair, Inc. as amended through May 1, 2002 (Filed herewith).

3.2 Third Amended and Superseding By-Laws of Pentair, Inc. adopted on August 23, 2000 as amended May 1, 2002 (Filed herewith).

10.15 Pentair, Inc. Executive Officer Performance Plan as amended and restated, dated February 27, 2002 and approved by shareholders on May 1, 2002 (Incorporated by reference to Exhibit 10.15 contained in Pentair s Annual Report on Form 10-K for the year ended December 31, 2001).

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 23, 2002.

PENTAIR, INC.
Registrant

By /s/ David D. Harrison

David D. Harrison
Executive Vice President and Chief Financial Officer
(Chief Accounting Officer)

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