

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

**FORM 10-K**

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

**For the Fiscal Year Ended December 31, 2001**

**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**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

**Name of each exchange on which registered**

Common Shares, \$0.16 2/3 par value

New York Stock Exchange

Common Share Purchase Rights

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by nonaffiliates of the Registrant on March 4, 2002 was \$1,872,150,626 based upon a closing price of \$41.9063 per share. The number of shares outstanding of Registrant's only class of common stock on March 4, 2002, was 49,178,709.

**Pentair, Inc.**  
**Annual Report on Form 10-K**  
**For the Year Ended December 31, 2001**

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## PART I

### ITEM 1. OUR BUSINESS

Unless otherwise indicated, all references to “Pentair,” “we,” “our,” and “us” refer to Pentair, Inc., a Minnesota corporation (incorporated in 1966), and its subsidiaries.

We are a diversified manufacturer operating in three segments on a global basis. Our diversification has enabled us to provide shareholders with relatively consistent and improved operating results despite difficult markets that may occur in one or another segment at times. Ongoing demand for power tools, the increasing need for clean water throughout the world, and the critical importance of protecting sensitive electronics give Pentair excellent prospects for long-term performance. Our basic operating strategies include:

- *long-term growth in sales and income;*
- *ongoing cost containment and productivity improvement driven by lean manufacturing initiatives;*
- *new product development and consistent product enhancement;*
- *multi-channel distribution; and*
- *portfolio management of our businesses.*

Our address on the Internet is [www.pentair.com](http://www.pentair.com). You may learn more about us by visiting this site. The information on our web site is not incorporated into this annual report on Form 10-K.

### RECENT DEVELOPMENTS

#### **Growth of our business**

We continually look at each of our businesses to determine whether they fit with our evolving strategic vision. Our primary focus is on businesses with strong fundamentals and growth opportunities. We seek growth both through product and service innovation and acquisitions. Acquisitions have played an important part in the 87 percent sales growth of our business over the past five years.

#### **Discontinued operations**

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg Co./Lincoln Automotive Company) and Lincoln Industrial, Inc (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC and in December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC, other investors, and members of management of Lincoln Industrial.

The following table summarizes the components of the proceeds from the sales:

<i>In thousands</i>	Century/Lincoln Automotive <sup>(1)</sup>	Lincoln Industrial	Equipment Segment
Cash	\$ —	\$ 58,047	\$ 58,047
Short-term notes receivable	18,160	1,000	19,160
Long-term notes receivable	—	1,000	1,000
Preferred stock	—	18,400	18,400
<b>Total proceeds</b>	<b>\$ 18,160</b>	<b>\$ 78,447</b>	<b>\$ 96,607</b>

<sup>(1)</sup> Amount received as of the end of 2001 was \$12,053.

As part of the sale of Lincoln Industrial, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization – LN Holdings Corporation. The preferred stock has a \$37.5 million face value, but has been recorded at \$18.4 million, which represents the estimated fair value of the preferred stock based on an independent valuation. The selling price of Lincoln Industrial is subject to a final purchase price adjustment based on determination of audited net assets, which we expect to occur in the first half of 2002.

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Also refer to ITEM 7, Management's Discussion and Analysis, and ITEM 8, Note 3 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

### **BUSINESS SEGMENTS**

*We classify our continuing operations into the following business segments:*

- **Tools** — which manufactures and markets tool products positioned at the mid- to upper-end of the market and targets professionals and upscale hobbyists. Tools segment products include woodworking machinery, portable power tools, metal and stoneworking tools, compressors, generators, and pressure washers.
- **Water** — which manufactures and markets essential products for the transport and treatment of water, wastewater and fluids. Water segment products include water and wastewater pumps, control valves, pumps and pumping stations for thick fluid transfer applications, storage tanks, filtration systems, and pool and spa accessories.
- **Enclosures** — which designs, manufactures, and markets customized and standard metal and composite enclosures that house and protect sensitive controls and components for markets that include data communications, networking, telecommunications, testing equipment, automotive, and general electronics. Products include metallic and composite enclosures, cabinets, cases, subracks, thermal management backplanes and power supplies.
- **Other** — is primarily composed of corporate expenses, our insurance subsidiary, intermediate finance companies, divested operations, discontinued operations, and intercompany eliminations.

Business segment and geographical financial information is contained in ITEM 8, Note 14 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

### **TOOLS SEGMENT**

#### ***Seasonality***

In line with the Christmas gift-giving season, we typically experience stronger fourth quarter and weaker first quarter sales in our Tools segment. Because of this, we also experience higher inventories in the third quarter and growth in accounts receivable in the fourth and first quarters of each year.

#### ***Competition***

The Tools segment faces numerous competitors and strong distributors, some of which are larger and have more resources. Competition in the Tools segment has been intense and continues to increase, especially as these industries consolidate. In most markets, only a few large players remain, each having extensive product lines. Growth is anticipated to come from product development, continued penetration of expanding market channels, and acquisitions, especially in the accessories arena.

Competition at the end-user level focuses primarily on brand names, product performance and features, quality, service and, most importantly, price. The competition for shelf space at home centers and national retailers is particularly intense, demanding continuing product innovation, special inventory and delivery programs, after-sale service capability, and competitive pricing. Our strategy is to be the price/quality leader in our selected markets. Our success in maintaining our position in the marketplace is primarily due to developing product feature innovations, new products, outsourcing, productivity, and promotions.

#### ***Customer concentration***

Information regarding significant customers in our Tools segment is contained in ITEM 8, Note 14 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

## WATER SEGMENT

### Seasonality

We experience strong seasonal demand in our Water segment for pool and spa equipment products in the March through July time period, with some advance sales occurring in earlier months, which generally receive longer payment terms. As the installed base grows throughout North America and Europe, the selling season tends to lengthen.

### Competition

Our Water segment faces numerous competitors, some of which are larger, have more resources, and are more vertically integrated. Competition in the commercial and residential pump markets focuses on brand names, product performance, quality, and price. While home center and national retailers are important for residential lines of water and wastewater pumps, they are much less important in commercial pump markets. In municipal pump markets, competition focuses on performance to required specification, service and price. Competition in the water treatment component market focuses on product performance and design, quality, delivery and price. In the pool and spa equipment market, there are a number of competitors, one of which we consider our major competitor. We compete by offering a wide variety of innovative and high quality products, which are competitively priced. Our existing distribution channels and reputation for quality also contribute to our continuing market penetration.

### Customer concentration

Information regarding significant customers in our Water segment is contained in ITEM 8, Note 14 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

## ENCLOSURES SEGMENT

### Competition

Competition in the enclosures markets can be very intense, especially in telecom and datacom markets, where product design, prototyping, global supply, and customer service are very significant factors. As we further penetrate the telecom and datacom markets, the Enclosures segment encounters increasing competition on a global basis from contract electronics manufacturers. The year 2001 was a difficult period in the Enclosures segment, however, we remained profitable while many competitors faced financing issues stemming from significant volume declines. Future growth in the Enclosures segment will likely come from continued channel penetration, growth in defined modification product offerings, product development, geographic expansion, and acquisitions. Consolidation, globalization, and outsourcing are the most important trends in the electronic enclosures business and we participated by making several acquisitions in the past few years. We believe our Enclosures business has the broadest array of products and also a significant footprint globally.

## INFORMATION REGARDING ALL BUSINESS SEGMENTS

### Backlog

Our backlog of orders from continuing operations as of December 31 by segment was:

<i>In thousands</i>	2001	2000	\$ change	% change
Tools	\$ 20,700	\$ 32,906	\$ (12,206)	(37.1%)
Water	93,146	105,789	(12,643)	(12.0%)
Enclosures	69,579	118,409	(48,830)	(41.2%)
Total	\$ 183,425	\$ 257,104	\$ (73,679)	(28.7%)

The \$12.2 million decline in Tools segment backlog was primarily due to the timing of orders for pressure washers and air compressors. Large orders for these products were not received until early 2002. The \$12.6 million decline in Water segment backlog was primarily due to the timing of orders for our pool equipment products. Early-buy orders are normally received near the end of the year and shipped the following year. In

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2001, a larger portion of these orders were received and shipped in the same year. The \$48.8 million decline in Enclosures segment backlog reflects reduced capital spending in the industrial market and the downturn in the datacom and telecom markets.

### **Environmental**

Matters pertaining to the environment are discussed in ITEM 3, ITEM 7, and in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

### **Raw materials**

The principal raw materials we purchase are plastic and steel. As a result of our significant diversification, we are not exposed to large swings in any one raw material price. The materials used in the various manufacturing processes are purchased on the open market, and the majority are available through multiple sources and are in adequate supply.

### **Intellectual Property**

Patents, trademarks, and proprietary technology are important to our business. However, we do not regard our business as being materially dependent upon any single patent, trademark, or technology.

### **Employees**

At the end of 2001, we employed approximately 11,700 people and consider our employee relations to be very good.

## **ITEM 2. PROPERTIES**

Our corporate offices are located in St. Paul, Minnesota. Manufacturing operations are carried out at approximately 19 plants located throughout the United States and at 17 plants located in 11 other countries. Of these manufacturing facilities, two plants located in the United States and two plants located in Europe will be closed or abandoned in 2002. In addition, we have approximately 30 warehouse facilities and numerous sales and service offices throughout the world. Through a 40 percent-owned joint venture with a long-time Asian tool supplier, we have an interest in four additional factories in Asia.

We believe that our production facilities are suitable for their purpose and are adequate to support our businesses.

## **ITEM 3. LEGAL PROCEEDINGS**

We have been made parties to a number of actions filed or have been given notice of potential claims relating to the conduct of our business, including those pertaining to product liability, environmental, safety and health, patent infringement, and employment matters. Major matters that may have an impact on Pentair are discussed below. We believe that the outcome of such legal proceedings and claims will not have a material adverse effect on our financial position, liquidity, or future results of operations.

### **Environmental**

We have been named as defendants, targets or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *deminimis* status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial condition or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Lake Superior Paper Industries supercalendared paper business and the Cross Pointe Paper Corporation uncoated paper business in 1995 and the disposition of the Federal Cartridge Company ammunition business in 1997, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers of both the paper business and the ammunition business. We have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities.

In addition, there are pending environmental issues concerning a limited number of sites including sites in Jackson, Tennessee, and Los Angeles, California. We acquired the site in Jackson from Rockwell International

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Corporation, with whom we have agreed on division of responsibility for remediation and other future costs relating to the site. The site in Los Angeles was acquired in the purchase of the pressure vessel and pool and spa equipment businesses of Essef Corporation and relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs. We do not believe that projected response costs will result in a material liability.

### ***Product liability claims***

As of February 28, 2002, we are defendants in approximately 148 product liability lawsuits and have been notified of approximately 164 additional claims. We continue to have in place insurance coverage deemed adequate for our needs. A substantial number of these lawsuits and claims are insured and accrued for by Penwald Insurance Company (Penwald), a regulated insurance company wholly owned by Pentair. See discussion in ITEM 8, Note 1 of Notes to the Consolidated Financial Statements – Insurance subsidiary. Accounting accruals covering the deductible portion of liability claims not covered by Penwald have been established and are reviewed on a regular basis. We have not experienced unfavorable trends in either the severity or frequency of product liability claims.

### ***Horizon litigation***

Twenty-eight separate lawsuits involving 29 primary plaintiffs, a class action, and claims for indemnity by Celebrity Cruise Lines, Inc. (Celebrity), were brought against Essef Corporation (Essef) and certain of its subsidiaries prior to our acquisition in August 1999. These lawsuits alleged exposure to Legionnaires bacteria by passengers aboard the cruise ship M/V Horizon, a ship operated by Celebrity. The lawsuits included a class action brought on behalf of all passengers aboard the ship during the relevant time period, individual “opt-out” passenger suits, and a suit by Celebrity. Celebrity alleges in its suit that it has sustained economic damages due to loss of usage of the M/V Horizon while it was dry-docked.

The claims against Essef and its involved subsidiaries, are based upon the allegation that Essef designed, manufactured, and marketed two sand swimming pool filters that were installed as a part of the spa system on the Horizon, and allegations that the spa, and filters, contained bacteria that infected certain passengers on cruises from December 1993 through July 1994.

Prior to our acquisition of Essef, a settlement was reached in the class action. With regard to the individual “opt-out” passenger suits, the claims of one plaintiff were tried under a stipulation among all remaining parties providing that the liability findings would be applicable to all plaintiffs and defendants. The claims of this plaintiff were unusual because he alleged that he developed complications that profoundly impaired his mental functioning. No other plaintiff asserted similar claims.

The trial resulted in a jury verdict on June 13, 2000 finding liability on the part of the Essef defendants (70%) and Celebrity and its sister company, Fantasia (together 30%). Compensatory damages in the total amount of \$2.7 million were awarded, each defendant being accountable for its proportionate share of liability. The Essef defendants’ proportionate share is covered by insurance. Punitive damages were separately awarded against the Essef defendants in the total amount of \$7 million, with 60% awarded to all remaining plaintiffs and 40% to Celebrity. Essef and its subsidiaries filed post-trial motions challenging the verdict, which were denied in February 2002. Essef intends to file an appeal to the United States Court of Appeal for the Second Circuit.

All of the remaining individual cases have been resolved through either settlement or trial. The only remaining unresolved case is that brought by Celebrity for interruption of its business. That case has been placed on hold pending a resolution of post-trial motions.

At the current time, we are optimistic that remaining suits will be resolved within available insurance coverage. With regard to Celebrity’s claim against Essef, Westchester, one of Essef’s insurance carriers, has issued a notice of rights letter. This is a pre-acquisition liability and we believe we have reserves sufficient to cover the amount of any uninsured awards or settlements.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS****None.****EXECUTIVE OFFICERS OF THE REGISTRANT***Current executive officers of Pentair, their ages, current position, and their business experience during at least the past five years are as follows:*

<u>Name</u>	<u>Age</u>	<u>Current Position and Business Experience</u>
Randall J. Hogan	46	President and Chief Executive Officer since January 2001; President and Chief Operating Officer, December 1999 — December 2000; Executive Vice President and President of Pentair's Electrical and Electronic Enclosures Group, March 1998 — December 1999; President of United Technologies' Carrier Transicold Division, February 1995 — August 1997.
David D. Harrison	54	Executive Vice President and Chief Financial Officer since February 2000; Executive Vice President and Chief Financial Officer of Scotts Company, August 1999 — February 2000; Executive Vice President and Chief Financial Officer of Coltec Industries, August 1996 — August 1999; Executive Vice President and Chief Financial Officer of Pentair, Inc., March 1994 — July 1996; Senior Executive with General Electric Technical Services organization, January 1990 — March 1994.
Richard J. Cathcart	57	President and Chief Operating Officer of Water Technologies segment since January 2001; Executive Vice President and President of Pentair's Water Technologies Group, February 1996 — December 2000; Executive Vice President, Corporate Development, March 1995 — January 1996.
Frank J. Feraco	55	President and Chief Operating Officer of Tools segment since December 2000; President, Textron Industrial Products Segment, 1998 — December 2000; President, Kohler Company International Plumbing Business, 1996 — 1998; President, Danaher Corp. Tools Group, 1994 — 1996.
Michael V. Schrock	49	President and Chief Operating Officer of Enclosures segment since October 2001; President, Pentair Water Technologies — Americas, January 2001 — October 2001; President, Pentair Pump and Pool Group, August 2000 — January 2001; President, Pentair Pump Group, January 1999 — August 2000; Vice President and General Manager, Aurora, Fairbanks Morse and Pentair Pump Group International, March 1998 — December 1998; Divisional Vice President and General Manager, Honeywell Inc, 1994 — 1998.
Louis L. Ainsworth	54	Senior Vice President and General Counsel since July 1997 and Secretary since January 2002; Shareholder and Officer of the law firm of Henson & Efron, P.A., November 1985 — June 1997.
Karen A. Durant	42	Vice President, Controller since September 1997; Controller, January 1996 — August 1997; Assistant Controller, September 1994 — December 1995; Director of Financial Planning and Control of Hoffman Enclosures Inc. (subsidiary of Registrant), October 1989 — August 1994.
Debby S. Knutson	47	Vice President, Human Resources since September 1994; Assistant Vice President, Human Resources, August 1993 — September 1994; Vice President, Human Resources of Hoffman Enclosures, Inc. (subsidiary of Registrant), July 1990 — August 1993; Director of Human Resources of Hoffman Enclosures, Inc., January 1989 — July 1990.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

Our common stock is listed for trading on the New York Stock Exchange and trades under the symbol "PNR." As of December 31, 2001, there were 4,229 shareholders of record.

The high, low, and closing sales price for our common stock and the dividends declared for each of the quarterly periods for 2001 and 2000 were as follows:

	2001				2000			
	First	Second	Third	Fourth	First	Second	Third	Fourth
<b>High</b>	\$ 30.5625	\$ 36.4063	\$ 38.0469	\$ 39.2813	\$ 39.4375	\$ 44.0000	\$ 36.3750	\$ 30.5000
<b>Low</b>	\$ 22.5000	\$ 24.5000	\$ 28.8906	\$ 29.7344	\$ 31.8125	\$ 35.3125	\$ 23.9375	\$ 21.0000
<b>Close</b>	\$ 25.4844	\$ 33.7969	\$ 30.7656	\$ 36.5156	\$ 37.0625	\$ 35.5000	\$ 26.7500	\$ 24.1875
<b>Dividends declared</b>	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.17	\$ 0.17

Pentair has paid 104 consecutive quarterly dividends. See ITEM 8, Note 8 of Notes to Consolidated Financial Statements for certain dividend restrictions.

The Annual Meeting of Shareholders of Pentair will be held at the Lutheran Brotherhood Auditorium, 625 Fourth Avenue South, Minneapolis, Minnesota, on Wednesday, May 1, 2002, at 10:00 A.M.

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**ITEM 6. SELECTED FINANCIAL DATA**

The table below sets forth summary consolidated historical data relating to Pentair and was derived from the audited historical Consolidated Financial Statements of Pentair.

		Years ended December 31					
<i>Dollars in thousands, except per-share data</i>		2001	2000	1999	1998	1997	1996
<b>Statement of operations</b>							
Net sales:	Tools	\$ 1,038,606	\$ 1,066,616	\$ 875,643	\$ 661,782	\$ 573,787	\$ 478,107
	Water	887,518	903,672	582,927	441,030	306,047	218,344
	Enclosures	689,820	777,725	657,500	586,829	600,491	566,919
	Other	—	—	—	—	128,136	133,360
	<b>Total</b>	<b>2,615,944</b>	<b>2,748,013</b>	<b>2,116,070</b>	<b>1,689,641</b>	<b>1,608,461</b>	<b>1,396,730</b>
Cost of goods sold		1,967,945	2,051,515	1,529,419	1,227,427	1,189,777	1,032,343
Other costs and expenses		450,133	469,679	361,877	297,972	272,578	240,982
Restructuring charge		40,105	24,789	23,048	—	—	—
Operating income:	Tools	63,232	23,751	100,680	80,383	62,669	45,800
	Water	109,792	120,732	73,362	56,264	32,366	30,562
	Enclosures	1,857	96,268	46,346	46,026	47,282	53,856
	Other	(17,120)	(38,721)	(18,662)	(18,431)	3,789	(6,813)
	<b>Total</b>	<b>157,761</b>	<b>202,030</b>	<b>201,726</b>	<b>164,242</b>	<b>146,106</b>	<b>123,405</b>
Gain on sale of business		—	—	—	—	10,313	—
Net interest expense		61,488	74,899	43,582	19,855	19,729	16,849
Other expense, write-off of investment		2,985	—	—	—	—	—
Provision for income taxes		35,772	45,263	60,056	53,667	58,089	42,860
Income from continuing operations		57,516	81,868	98,088	90,720	78,601	63,696
Income (loss) from discontinued operations, net of tax		—	(24,759)	5,221	16,120	12,999	10,813
Loss on disposal of discontinued operations, net of tax		(24,647)	—	—	—	—	—
Cumulative effect of accounting change, net of tax		—	(1,222)	—	—	—	—
Net income		32,869	55,887	103,309	106,840	91,600	74,509
Preferred dividends		—	—	—	(4,267)	(4,867)	(4,928)
Income available to common shareholders		32,869	55,887	103,309	102,573	86,733	69,581
<b>Common share data</b>							
Basic EPS — continuing operations		\$ 1.17	\$ 1.68	\$ 2.24	\$ 2.25	\$ 1.94	\$ 1.57
Basic EPS — discontinued operations		(0.50)	(0.51)	0.12	0.42	0.34	0.29
Basic EPS — cumulative effect of accounting change		—	(0.02)	—	—	—	—
Basic EPS — net income		0.67	1.15	2.36	2.67	2.28	1.86
Diluted EPS — continuing operations		1.17	1.68	2.21	2.09	1.81	1.47
Diluted EPS — discontinued operations		(0.50)	(0.51)	0.12	0.37	0.30	0.26
Diluted EPS — cumulative effect of accounting change		—	(0.02)	—	—	—	—
Diluted EPS — net income		0.67	1.15	2.33	2.46	2.11	1.73
Cash dividends declared per common share		0.70	0.66	0.64	0.60	0.54	0.50
Stock dividends declared per common share		—	—	—	—	—	100.0%
Book value per common share		20.67	20.75	20.51	16.99	15.04	13.60
<b>Balance sheet data</b>							
Property and equipment, net		\$ 329,500	\$ 352,984	\$ 367,783	\$ 271,389	\$ 261,486	\$ 270,071
Total assets		2,372,198	2,644,025	2,706,516	1,484,207	1,413,494	1,236,694
Total debt		723,706	913,974	1,035,084	340,721	328,538	312,817
Shareholders' equity		1,015,002	1,010,591	990,771	707,628	627,653	560,751
Debt/total capital		41.6%	47.5%	51.1%	32.5%	34.4%	35.8%
Return on average common shareholders' equity		3.2%	5.6%	12.6%	16.7%	16.0%	14.4%
<b>Other data</b>							
Depreciation		\$ 62,674	\$ 59,897	\$ 56,081	\$ 46,571	\$ 47,577	\$ 42,620
Amortization of intangibles and unearned compensation		41,675	39,131	25,987	15,483	15,240	12,795
Capital expenditures		53,668	68,041	53,671	43,335	69,364	67,216
Employees of continuing operations		11,700	13,100	12,400	8,800	8,800	8,000

All financial information reflects our Equipment segment (Century Mfg Co./Lincoln Automotive and Lincoln Industrial businesses) as discontinued operations. The 2001 results reflect a pre-tax loss on the sale of these businesses of \$36.3 million (\$24.6 million after tax, or \$0.50 per share). The 2000 results reflect a non-cash pre-tax cumulative effect of accounting change related to revenue recognition that reduced income by \$1.9 million (\$1.2 million after tax, or \$0.02 per share). The 1997 results include a pre-tax gain on the sale of Federal Cartridge of \$10.3 million (\$1.2 million after tax, or \$0.03 per share).

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. From time to 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. Actual results may vary materially. 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 and 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

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. We believe that the most critical accounting policies applied in the preparation of our financial statements relate to:

• accounting for contingencies, under which we accrue an expense when it is probable that a liability has been incurred and the amount can be reasonably estimated;

• measuring assets 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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The difficulty in applying these policies arises from the assumptions, estimates, and judgments that have to be made currently about matters that are inherently uncertain, such as future economic conditions, operating results, and valuations, as well as management intentions. As the difficulty increases, the level of precision decreases, meaning that actual results can and often will be different from those currently estimated. We base our assumptions, estimates, and judgments on a combination of historical experiences, as well as other factors we believe reasonable under the circumstances.

Contingencies, by their nature, relate to uncertainties that require management to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of the potential expense. The most important contingencies impacting our financial statements relate 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; and
- the resolution of matters related to open tax years.

Measuring assets for impairment requires estimating intentions as to holding periods, future operating cash flows, and residual values of the assets under review. Changes in management intentions, market conditions, or operating performance could indicate that impairment charges might be necessary.

Accounting for pensions and other post-retirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical costs, and discount rates.

See ITEM 8, Note 1 of the Notes to Consolidated Financial Statements, included in this Form 10-K for a further discussion of certain specific accounting policies.

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**RESULTS OF OPERATIONS**

The following table sets forth information from our consolidated statements of income.

In thousands	2001	2000	1999	Percentage point change	
				2001 vs. 2000	2000 vs. 1999
Net sales	\$2,615,944	\$2,748,013	\$2,116,070		
Cost of goods sold	1,967,945	2,051,515	1,529,419		
Gross profit	647,999	696,498	586,651		
% of net sales	24.8%	25.3%	27.7%	(0.5) pts	(2.4) pts
SG&A and R&D	450,133	469,679	361,877		
% of net sales	17.2%	17.1%	17.1%	0.1 pts	0.0 pts
Restructuring charge	40,105	24,789	23,048		
% of net sales	1.5%	0.9%	1.1%	0.6 pts	(0.2) pts
Operating income	157,761	202,030	201,726		
% of net sales	6.0%	7.4%	9.5%	(1.4) pts	(2.1) pts
Net interest expense	61,488	74,899	43,582		
% of net sales	2.4%	2.7%	2.1%	(0.3) pts	0.6 pts
Other expense, write-off of investment	2,985	—	—		
% of net sales	0.1%	n/a	n/a		
Income from continuing operations					
before income taxes	93,288	127,131	158,144		
% of net sales	3.6%	4.6%	7.5%	(1.0) pts	(2.9) pts
Provision for income taxes	35,772	45,263	60,056		
Effective tax rate	38.3%	35.6%	38.0%	2.7 pts	(2.4) pts
Income from continuing operations	57,516	81,868	98,088		
% of net sales	2.2%	3.0%	4.6%	(0.8) pts	(1.6) pts
Income (loss) from discontinued operations, net of tax	—	(24,759)	5,221		
Loss on disposal of discontinued operations, net of tax	(24,647)	—	—		
Cumulative effect of accounting change, net of tax	—	(1,222)	—		
Net income	\$ 32,869	\$ 55,887	\$ 103,309		

Percentages may reflect rounding adjustments.

SG&A and R&D — Selling, general and administrative; and Research and development.

n/a — not applicable

**Net sales**

The components of the net sales change were:

Percentages	2001 vs. 2000	2000 vs. 1999
Volume	(4.4)	32.5
Price	0.1	(1.0)
Currency	(0.5)	(1.6)
Total	(4.8)	29.9

Net sales in 2001 totaled \$2,616 million, compared with \$2,748 million in 2000, and \$2,116 million in 1999. The 4.8 percent decline in 2001 was primarily due to volume declines in each of our business segments resulting from a weak global economy and the stronger U.S. dollar reducing the dollar value of foreign sales by about

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0.5 percent. In 2000, volume grew about 32.5 percent (up about 8 percent adjusted for acquisitions), with the stronger U.S. dollar reducing the dollar value of foreign sales by about 1.6 percent.

*Sales by segment and the year-over-year changes were as follows:*

<i>In thousands</i>	2001	2000	1999	2001 vs. 2000		2000 vs. 1999	
				\$ change	% change	\$ change	% change
Tools	\$ 1,038,606	\$ 1,066,616	\$ 875,643	\$ (28,010)	(2.6%)	\$ 190,973	21.8%
Water	887,518	903,672	582,927	(16,154)	(1.8%)	320,745	55.0%
Enclosures	689,820	777,725	657,500	(87,905)	(11.3%)	120,225	18.3%
<b>Total</b>	<b>\$ 2,615,944</b>	<b>\$ 2,748,013</b>	<b>\$ 2,116,070</b>	<b>\$(132,069)</b>	<b>(4.8%)</b>	<b>\$ 631,943</b>	<b>29.9%</b>

### **Tools**

*The 2.6 percent decline in Tools segment sales in 2001 was primarily due to:*

• lower sales volume due to the weak economy; and

• lower average selling prices in the first nine months of the year, stemming from the mid-2000 price discounting activities, somewhat offset by an increase in realized selling prices in the fourth quarter of 2001.

*The 21.8 percent increase in Tools segment sales in 2000 was primarily due to:*

• the September 1999 acquisition of DeVilbiss Air Power Company (DAPC); and

• higher sales volume in our Porter-Cable/Delta business.

*These increases in 2000 were partially offset by:*

• lower sales volume in 2000 for generators due to high inventories at distributors and retailers at the end of 1999 and lower storm sales in 2000; and

• lower average selling prices, primarily in our Porter-Cable/Delta business, due to price discounting in some markets on some products in 2000 to recover market share.

### **Water**

*The 1.8 percent decline in Water segment sales in 2001 was primarily due to:*

• lower sales volume for our industrial pumps and components for large water filtration systems as a weaker economy slowed demand; and

• unfavorable impacts of foreign currency translation.

*These decreases in 2001 were partially offset by:*

• higher sales volume in our pool and spa equipment business as we increased our market share.

*The 55.0 percent increase in Water segment sales in 2000 was primarily due to:*

• the August 1999 acquisition of the pressure vessel and pool and spa equipment businesses of Esfef Corporation; and

• higher sales volume in our pump and valve businesses due to increased demand.

*These increases in 2000 were somewhat offset by:*

• unfavorable impacts of foreign currency translation.

### **Enclosures**

*The 11.3 percent decline in Enclosures segment sales in 2001 was primarily due to:*

• lower sales volume attributable to sharp declines in all enclosures markets, somewhat offset by increased sales due to the expansion in the number of Hoffman distributors; and

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• unfavorable impacts of foreign currency translation.

The 18.3 percent increase in Enclosures segment sales in 2000 was primarily due to:

• higher sales volume due to strong demand for our products in the telecom and datacom markets and with industrial original equipment manufacturers.

The increase in 2000 was somewhat offset by:

• unfavorable impacts of foreign currency translation. Excluding the impacts of foreign currency translation, 2000 Enclosures segment sales increased by 22 percent over 1999.

The following table provides a comparison of our reported gross profit, SG&A & R&D, and operating income, and those results excluding special items (restructuring charges and one-time items to establish special reserves):

In thousands	2001		
	Gross profit	SG&A and R&D	Operating income
Reported results	\$647,999	\$ 450,133	\$ 157,761
Restructuring charge	955	—	41,060
Results excluding special items	\$648,954	\$ 450,133	\$ 198,821
<i>% of net sales</i>	24.8%	17.2%	7.6%

In thousands	2000		
	Gross profit	SG&A and R&D	Operating income
Reported results	\$696,498	\$ 469,679	\$ 202,030
Restructuring charge	—	—	24,789
Establish additional accounts receivable reserve	—	22,000	22,000
Establish additional inventory reserve	8,000	—	8,000
Results excluding special items	\$704,498	\$ 447,679	\$ 256,819
<i>% of net sales</i>	25.6%	16.3%	9.3%

In thousands	1999		
	Gross profit	SG&A and R&D	Operating income
Reported results	\$586,651	\$ 361,877	\$ 201,726
Restructuring charge	—	—	23,048
Results excluding special items	\$586,651	\$ 361,877	\$ 224,774
<i>% of net sales</i>	27.7%	17.1%	10.6%

### **Gross profit**

Gross profit margin excluding special items was 24.8 percent in 2001, compared with 25.6 percent in 2000, and 27.7 percent in 1999.

The 0.8 percentage point decline in 2001 from 2000 was primarily the result of:

• sharply lower sales volume and unfavorable product mix in our Enclosures segment, partially offset by improved gross margins in our Tools segment due to material price savings and other cost reduction programs.

The 2.1 percentage point decline in 2000 from 1999 was primarily the result of:

• lower sales volume for generators in our DAPC business;

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- lower average selling prices due to price discounting to recover market share in our Porter-Cable/Delta business;
- unfavorable product mix in our Tools and Enclosures segments;
- unfavorable inventory variances, primarily in our Porter-Cable/Delta business; and
- higher costs due to challenges encountered in the setup of our new inventory distribution center for our Porter-Cable/Delta business in January 2000.

### **SG&A and R&D**

SG&A and R&D expenses excluding special items was 17.2 percent of net sales in 2001, compared with 16.3 percent and 17.1 percent of net sales in 2000 and 1999, respectively.

*The 0.9 percentage point increase in 2001 from 2000 primarily stems from:*

- an 11.3 percent decline in 2001 Enclosures segment sales, compared with only a 2.0 percent decrease in their SG&A and R&D expenses due to more restrictive short-term opportunities for cost reductions, especially in Europe; and
- investments to redefine and streamline company-wide business processes in the areas of supply chain management and lean enterprise, which we expect will improve our future overall cost structure.

*The 0.8 percentage point decline in 2000 from 1999 primarily stems from:*

- the Water and Enclosures sales growth in 2000 outpacing the growth in SG&A and increased R&D spending.

*This decline in 2000 was partially offset by:*

- higher advertising and selling expenses in our Tools segment.

### **Restructuring charge**

#### **1999 restructuring charge**

To reduce costs and improve productivity, we initiated a restructuring program in the first quarter of 1999 to consolidate manufacturing facilities, reduce overhead, and outsource certain product lines in our Tools and Enclosures segments. Related to this program, we recorded a restructuring charge of \$23.0 million. In the first quarter of 2000 we re-evaluated the status and progress of projects implemented in 1999 and recorded a change in estimate that reduced the restructuring charge by \$8.5 million. In addition, new projects were identified and we recorded an additional restructuring charge of \$6.0 million related to our Enclosures segment for the closure of a North American facility and the non-cash write-off of impaired goodwill. In the fourth quarter of 2000, we recorded a final change in estimate that increased the restructuring charge by \$0.5 million. As of the end of 2000, this restructuring program was complete.

#### **2000 restructuring charge**

To reduce costs and improve productivity and accountability, we initiated a restructuring program in the fourth quarter of 2000 to decentralize corporate service functions and reorganize our Tools segment infrastructure. As a result, we recorded a restructuring charge of \$26.8 million. In the fourth quarter of 2001, we recorded a final change in estimate that reduced the restructuring charge by \$1.7 million primarily due to favorable negotiation of contract termination costs. As of the end of 2001, this restructuring program was complete.

#### **2001 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, of which \$1.0 million is included in *cost of goods sold* on the consolidated statement of income for the write-down of inventory on certain custom enclosures product that was discontinued as a result of plant closures.

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The major components of the 1999, 2000 and 2001 restructuring charges and remaining restructuring liability follows:

In thousands	Employee termination benefits	Non-cash asset disposals	Impaired goodwill	Exit costs	Total
1999 restructuring charge (first quarter)	\$ 21,288	\$ 1,100	\$ —	\$ 660	\$ 23,048
Utilization of 1999 restructuring charge	(8,678)	—	—	(167)	(8,845)
December 31, 1999 liability	12,610	1,100	—	493	14,203
Change in estimate (first quarter)	(9,110)	—	—	602	(8,508)
2000 restructuring charge (first quarter)	800	915	2,985	1,340	6,040
Change in estimate (fourth quarter)	747	42	—	(332)	457
2000 restructuring charge (fourth quarter)	7,888	10,518	—	8,394	26,800
Utilization of 1999 and 2000 restructuring charges	(5,047)	(12,575)	(2,985)	(2,190)	(22,797)
December 31, 2000 liability	7,888	—	—	8,307	16,195
Change in estimate (fourth quarter)	991	—	—	(2,688)	(1,697)
2001 restructuring charge (fourth quarter)	16,696	11,050	7,362	7,649	42,757
Utilization of 2000 and 2001 restructuring charges	(11,343)	(11,050)	(7,362)	(6,388)	(36,143)
December 31, 2001 liability	\$ 14,232	\$ —	\$ —	\$ 6,880	\$ 21,112

Included in *other current liabilities* on the consolidated balance sheets is the unused portion of the restructuring charge liability of \$21.1 million. We expect to complete the remaining restructuring activities in 2002.

As a result of our 1999 and 2000 restructuring charge programs, we reduced our workforce by approximately 800 and 225 employees, respectively. Workforce reductions related to the 2001 restructuring charge are for approximately 720 employees, of whom 227 were terminated in the fourth quarter of 2001. Employee termination benefits consist primarily of severance and outplacement counseling fees. Employee termination benefits for the 2001 restructuring charge includes a \$0.4 million non-cash charge for the intrinsic value of stock options modified as part of a severance agreement.

Non-cash asset disposals for the 1999, 2000, and 2001 restructuring charges were for the write-down of equipment, leasehold improvements, and inventory (2001 only) as a direct result of our decisions to exit certain facilities and the abandonment of internal use software under development. Exit costs are primarily related to contract and lease termination costs.

The following table summarizes the components of the 1999, 2000 and 2001 restructuring charges by segment, net of changes in estimates:

In thousands	Tools	Enclosures	Other	Total
Employee termination benefits	\$ 5,105	\$ 16,183	\$ —	\$ 21,288
Non-cash asset disposals	1,100	—	—	1,100
Facility exit costs	100	560	—	660
1999 restructuring charge	\$ 6,305	\$ 16,743	\$ —	\$ 23,048
Employee termination benefits	\$ (96)	\$ (6,064)	\$ 6,485	\$ 325
Non-cash asset disposals	(55)	1,012	10,518	11,475
Impaired goodwill	—	2,985	—	2,985
Exit costs	5,547	442	4,015	10,004
2000 restructuring charge	\$ 5,396	\$ (1,625)	\$ 21,018	\$ 24,789
Employee termination benefits	\$ —	\$ 16,696	\$ 991	\$ 17,687
Non-cash asset disposals	—	7,675	3,375	11,050
Impaired goodwill	—	7,362	—	7,362
Exit costs	—	7,649	(2,688)	4,961
2001 restructuring charge	\$ —	\$ 39,382	\$ 1,678	\$ 41,060

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### Operating income

The following table provides a comparison of operating income by segment and the change from the prior year:

In thousands	2001	2000	1999	Percentage point change	
				2001 vs. 2000	2000 vs. 1999
Tools <sup>(1)</sup>	\$ 63,232	\$ 23,751	\$ 100,680		
% of net sales	6.1%	2.2%	11.5%	3.9 pts	(9.3) pts
Water	109,792	120,732	73,362		
% of net sales	12.4%	13.4%	12.6%	(1.0) pts	0.8 pts
Enclosures <sup>(2)</sup>	1,857	96,268	46,346		
% of net sales	0.3%	12.4%	7.0%	(12.1) pts	5.4 pts
Corporate/other <sup>(3)</sup>	(17,120)	(38,721)	(18,662)		
<b>Total</b>	<b>\$ 157,761</b>	<b>\$ 202,030</b>	<b>\$ 201,726</b>		
% of net sales	6.0%	7.4%	9.5%	(1.4) pts	(2.1) pts

(1) Tools segment operating income includes restructuring charge expense of \$5.4 million in 2000 and \$6.3 million in 1999. Operating income also reflects one-time pre-tax costs to establish an additional \$30.0 million in accounts receivable (\$5.0 million in the second quarter of 2000 and \$17.0 million in the fourth quarter of 2000) and inventory (\$8.0 million in the fourth quarter of 2000) reserves.

(2) Enclosures segment operating income includes restructuring charge expense (income) of \$39.4 million in 2001, \$(1.6) million in 2000 (due to a change in estimate of the 1999 restructuring liability), and \$16.7 million in 1999.

(3) Includes restructuring charge expense of \$1.7 million in 2001 and \$21.0 million in 2000.

### Tools

The following table provides a comparison of Tools segment operating income as reported, and those results excluding special items (restructuring charges and one-time items to establish special reserves):

In thousands	2001	2000	1999
<b>Tools</b>			
Operating income as reported	\$ 63,232	\$ 23,751	\$ 100,680
Restructuring charge	—	5,396	6,305
Establish additional accounts receivable reserve	—	22,000	—
Establish additional inventory reserve	—	8,000	—
<b>Operating income excluding special items</b>	<b>\$ 63,232</b>	<b>\$ 59,147</b>	<b>\$ 106,985</b>
% of net sales	6.1%	5.5%	12.2%
Percentage point change	0.6 pts	(6.7) pts	

The 0.6 percentage point increase in Tools segment 2001 operating income margin excluding special items was primarily due to:

• cost savings from our supply chain management and lean enterprise initiatives.

This increase in 2001 was partially offset by:

• lower sales volume due to the weak economy;

• lower average selling prices in the first nine months of the year, stemming from the mid-2000 price discounting activities, offset by an increase in realized selling prices in the fourth quarter of 2001;

• higher warranty costs; and

• unfavorable pension costs due to lower returns on pension assets.

The 6.7 percentage point decline in Tools segment 2000 operating income margin excluding special items was primarily due to:

• lower sales volume for generators and a change in product mix in our Porter-Cable/Delta business; and

• lower average selling prices due to price discounting to recover market share.

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### **Water**

The following table provides a comparison of Water segment operating income as reported:

In thousands	2001	2000	1999
<b>Water</b>			
Operating income as reported	\$ 109,792	\$ 120,732	\$ 73,362
% of net sales	12.4%	13.4%	12.6%
Percentage point change	(1.0) pts	0.8pts	

The 1.0 percentage point decline in Water segment operating income margin in 2001 was primarily due to:

• lower sales volume in our higher margin pump and water treatment businesses, which have been more directly affected by the economic slowdown.

The decline in 2001 was partially offset by:

• higher sales volume in our pool and spa equipment business as we increased our market share.

The 0.8 percentage point increase in Water segment operating income margin in 2000 was primarily due to:

• improved margins in the pool and spa equipment businesses acquired in August 1999;

• increased volume for pumps and valves; and

• material cost savings as a result of supply management initiatives coupled with increased labor productivity.

These increases in 2000 were partially offset by:

• unfavorable impacts of foreign currency translation.

### **Enclosures**

The following table provides a comparison of Enclosures segment operating income as reported, and those results excluding special items (restructuring charges):

In thousands	2001	2000	1999
<b>Enclosures</b>			
Operating income as reported	\$ 1,857	\$ 96,268	\$ 46,346
Restructuring charge (income)	39,382	(1,625)	16,743
Operating income excluding special items	\$ 41,239	\$ 94,643	\$ 63,089
% of net sales	6.0%	12.2%	9.6%
Percentage point change	(6.2) pts	2.6pts	

The 6.2 percentage point decline in Enclosures segment 2001 operating income margin excluding special items was primarily due to:

• lower sales volume, attributable to sharp declines in all enclosures markets;

• unfavorable product mix; and

• unfavorable pension costs due to lower returns on pension assets.

These decreases in 2001 were partially offset by:

• lower costs, primarily due to headcount reductions.

The 2.6 percentage point increase in Enclosures segment 2000 operating income margin excluding special items was primarily due to:

• higher sales volume due to strong demand for our products in the telecom and datacom markets and with industrial original equipment manufacturers.

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This increase in 2000 was somewhat offset by:

• unfavorable product mix; and

• unfavorable impacts of foreign currency translation in 2000.

### **Other expense**

In 2001, we incurred a non-cash charge of \$3.0 million primarily for the write-off of our business-to-business e-commerce equity investment that we made in early 2000.

### **Net interest expense**

Net interest expense was \$61.5 million in 2001, compared with \$74.9 million in 2000 and \$43.6 million in 1999. The decline in 2001 net interest expense of \$13.4 million reflects lower average borrowings driven by our strong cash flow performance in 2001, and lower interest rates on our variable rate debt. The increase in net interest expense of \$31.3 million in 2000 reflects higher borrowings as a result of our 1999 and 1998 acquisitions and higher average interest rates in 2000 compared with 1999.

### **Provision for income taxes**

Our effective tax rate on continuing operations was 38.3 percent in 2001, compared with 35.6 percent in 2000 and 38.0 percent in 1999. The 2.7 percentage point increase in the 2001 effective tax rate from 2000 was primarily the result of non-deductible amounts related to the 2001 restructuring charge and non-deductible amortization of goodwill, somewhat offset by favorable foreign tax effects. The effective tax rate on continuing operations excluding the 2001 restructuring charge was 35.0 percent. The 2.4 percentage point decline in the 2000 effective tax rate from 1999 was primarily due to the implementation of additional tax-planning strategies, somewhat offset by an increase in non-deductible amortization of goodwill resulting from our 1999 acquisitions.

We expect our effective tax rate on continuing operations to be 32.0 percent in 2002, primarily the result of adopting Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*, on January 1, 2002. The adoption of this new accounting standard will result in the cessation of goodwill amortization, much of which was non-deductible.

### **Discontinued operations**

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg Co./Lincoln Automotive Company) and Lincoln Industrial, Inc (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC and in December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC, other investors, and members of management of Lincoln Industrial.

The following table summarizes the components of the proceeds from the sales:

<i>In thousands</i>	Century/Lincoln Automotive <sup>(1)</sup>	Lincoln Industrial	Equipment Segment
Cash	\$ —	\$ 58,047	\$ 58,047
Short-term notes receivable	18,160	1,000	19,160
Long-term notes receivable	—	1,000	1,000
Preferred stock	—	18,400	18,400
<b>Total proceeds</b>	<b>\$ 18,160</b>	<b>\$ 78,447</b>	<b>\$ 96,607</b>

(1) Amount received as of the end of 2001 was \$12,053.

As part of the sale of Lincoln Industrial, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization — LN Holdings Corporation. The preferred stock has a \$37.5 million face value, but has been recorded at \$18.4 million, which represents the estimated fair value of the preferred stock based on an independent valuation. The selling price of Lincoln Industrial is subject to a final purchase price adjustment based on determination of audited net assets, which we expect to occur in the first half of 2002.

## 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. We have also accessed the public debt and equity markets in the past three years to fund acquisitions. Because of the seasonality of some of our businesses, particularly the pool and spa equipment business and the tools business, we have generally experienced negative cash flows from operations in the first half of any given year. However, we expect a more positive cash flow trend as a result of our emphasis on working capital management.

The following table presents selected annual measures of our liquidity calculated from our monthly operating results:

Days	December 31 2001	December 31 2000
Days of sales in accounts receivable	64	70
Days inventory on hand	75	80
Days in accounts payable	59	59
Cash conversion cycle	80	91

### Operating activities

Operating activities provided \$232.3 million in 2001, compared with \$184.9 million in 2000, and \$144.3 million in 1999. The \$47.4 million increase in 2001 was primarily due to an emphasis on better management of accounts receivable and inventories, somewhat offset by the decrease in accounts payable and the decline in net income. The \$40.6 million increase in 2000 was also attributable to our increased emphasis on working capital management, somewhat offset by the decline in earnings. We expect to increase cash provided by operating activities in 2002 through higher earnings and our continued emphasis on working capital management.

### Investing activities

Capital expenditures in 2001, 2000, and 1999 were \$53.7 million, \$68.0 million, and \$53.7 million, respectively. The \$14.3 million decrease in 2001 over 2000 reflects lower capital expenditures due to reduced needs for capacity and our lean enterprise initiatives and the \$14.3 million increase in 2000 over 1999 reflects increased investments, largely as a result of acquisitions. Capital expenditures as a percent of sales were 2.1 percent, 2.5 percent, and 2.5 percent for 2001, 2000, and 1999, respectively. We anticipate capital expenditures in 2002 to be around \$50.0 million as we expect to more aggressively expand our lean enterprise initiatives.

In the first quarter of 2001, we acquired Taunus, a Brazilian enclosures manufacturer, for \$6.9 million. The acquisition was financed through borrowings under our credit facilities. In the second quarter of 2001, we received \$5.0 million for the settlement of a purchase price dispute related to a 1999 acquisition. The amount received was accounted for as a reduction of goodwill.

In 2001, we invested \$5.0 million (\$3.0 million in the second quarter and \$2.0 million in the fourth quarter) to take a minority equity interest in a privately held developer and manufacturer of laser leveling and measuring devices. We are also investing 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 \$20.4 million has been paid. We hold an option to increase our ownership interest in these joint ventures to as much as 100 percent.

In 1999, we acquired DeVilbiss Air Power Company, the pressure vessel and pool and spa equipment businesses of Esfef Corporation, and WEB Tool & Manufacturing, Inc. for \$953.1 million. These acquisitions were primarily financed through an equity offering and the issuance of additional debt.

We periodically review our array of businesses in comparison to our overall strategic and performance objectives. As part of this review, we routinely acquire or divest of certain businesses. During 2002, we anticipate that any acquisitions completed will be funded through a combination of cash generated from operations and external funding sources or the issuance of stock.

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### **Financing activities**

As of the end of 2001, our capital structure consisted of \$723.7 million in long-term debt and \$1,015.0 million in shareholders' equity. The ratio of debt-to-total capital was 41.6 percent, compared with 47.5 percent as of the end of 2000. Our targeted debt-to-total capital ratio range is 30 to 40 percent. We will exceed this target from time to time as needed for operational purposes and/or acquisitions.

As a result of the 2001 restructuring charge, we expect future remaining cash outlays of approximately \$21.1 million in 2002. We expect to fund these outlays from existing cash balances and internally generated cash flows from operations.

The following summarizes our significant contractual obligations that impact our liquidity:

Contractual obligations In thousands	Payments due by period				
	Within 1 year	2-3 years	4-5 years	After 5 years	Total
Long-term debt, including current maturities	\$ 8,729	\$ 426,706	\$ 1,784	\$ 286,487	\$ 723,706
Operating leases, net of sublease rentals	25,288	30,950	13,199	5,962	75,399
Other long-term obligations	3,061	6,446	7,109	5,130	21,746
<b>Total contractual cash obligations, net</b>	<b>\$ 37,078</b>	<b>\$ 464,102</b>	<b>\$ 22,092</b>	<b>\$ 297,579</b>	<b>\$ 820,851</b>

Long-term debt and lines of credit are explained in detail in ITEM 8, Note 8 of the Notes to Consolidated Financial Statements. Operating leases are explained in detail in ITEM 8, Note 15 of the Notes to Consolidated Financial Statements.

We have committed revolving credit facilities totaling \$705 million (the Facilities), consisting of a \$315 million 364-day facility that expires on August 29, 2002, and \$390 million of multi-currency facilities that expire on September 2, 2004. There were no amounts outstanding under the 364-day facility at December 31, 2001.

As of the end of 2001, we had \$329.0 million outstanding under the Facilities. Interest rates and fees on the Facilities vary based on our debt ratings by credit rating agencies. Aggregate borrowings on the Facilities had a weighted-average interest rate of 5.52 percent in 2001 and 6.71 percent in 2000. In addition to the Facilities, we have \$40.0 million of uncommitted credit facilities, under which we had no borrowings as of the end of 2001.

Our debt agreements contain certain financial covenants that restrict the amount paid for dividends and certain other payments, and require us to maintain certain financial ratios and a minimum net worth. Under the most restrictive covenant, \$101.4 million of retained earnings were restricted as of the end of 2001. We are in compliance with all covenants.

As of the end of 2001, we had \$7.2 million of letters of credit outstanding. These letters of credit secure our performance to third parties under self-insurance programs and other commitments in the ordinary course of business.

Dividends paid in 2001 were \$34.3 million, compared with \$32.0 million in 2000, and \$28.2 million in 1999. The year-over-year increases reflect an increase in our annual per-share dividend rate of \$0.70 in 2001, compared with \$0.66 in 2000, and \$0.64 in 1999. We have paid dividends for the past twenty-six years and anticipate paying future dividends.

In addition to measuring our cash flow generation or usage based upon operating, investing, and financing classifications included in the 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 generated free cash flow of \$178.7 million in 2001, compared with

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\$116.9 million in 2000, and \$90.6 million in 1999. We intend to increase our free cash flow in 2002 through higher earnings and continuing to reduce 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.

### **Off-balance sheet financing**

We are a party to a synthetic leasing arrangement for a distribution center and office building in our Tools segment. The lease is designed and qualifies as an operating lease for accounting purposes, where only the monthly lease amount is recorded in the statement of income and the value of the underlying asset and related debt is off-balance sheet. The value of this off-balance sheet financing arrangement is approximately \$23.0 million and the agreement terminates in December 2004.

## **COMMITMENTS AND CONTINGENCIES**

### **Environmental**

We have been named as defendants, targets or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *deminimis* status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial condition or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Lake Superior Paper Industries supercalendared paper business and the Cross Pointe Paper Corporation uncoated paper business in 1995 and the disposition of the Federal Cartridge Company ammunition business in 1997, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers of both the paper business and the ammunition business. We have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities.

In addition, there are pending environmental issues concerning a limited number of sites including sites in Jackson, Tennessee, and Los Angeles, California. We acquired the site in Jackson from Rockwell International Corporation, with whom we have agreed on division of responsibility for remediation and other future costs relating to the site. The site in Los Angeles was acquired in the purchase of the pressure vessel and pool and spa equipment businesses of Esfef Corporation and relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs. We do not believe that projected response costs will result in a material liability.

## **NEW ACCOUNTING STANDARDS**

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (SFAS 141), *Business Combinations*, and SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. All of our acquisitions in recent years were accounted for under the purchase method. The new standard had no impact on Pentair in 2001. SFAS 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. We will adopt the provisions of SFAS 142 effective January 1, 2002. Had SFAS 142 been in effect for 2001, net income would have been \$32.0 million (\$36.1 million pre-tax) or \$0.65 per share higher. The standard also requires a reassessment of the useful lives of identifiable intangible assets other than goodwill and a test for impairment of goodwill and intangibles with indefinite lives annually, or more frequently if events and circumstances indicate that the carrying amounts may not be recoverable. We expect to complete this assessment in the first half of 2002.

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

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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. We will adopt SFAS 144 on January 1, 2002. We do not expect the adoption of this new standard to have a material effect on our historical consolidated results of operations, financial position and cash flows.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market risk

We are exposed to various market risks, including changes in interest rates, foreign currency rates and prices of raw materials and sourced components. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates. We use derivative financial instruments to manage and reduce the impact of some of these risks. We do not hold or issue derivative financial instruments for trading purposes.

#### Interest rate risk

We are exposed to changes in interest rates primarily as a result of our borrowing activities used to fund operations. We utilize committed floating rate credit facilities to fund a portion of our operations. Interest rates on \$74.5 million of floating rate debt are swapped to fixed rates through agreements with financial institutions. The table below summarizes our floating and fixed rate debt obligations and interest rate swap agreements as of December 31, 2001 along with interest rates for the swapped portion and fair value of the swap agreement. The average variable rates depicted below for the interest rate swaps are based on implied forward rates in the yield curve at December 31, 2001.

Dollars in thousands	Expected year of maturity						Total	Fair value
	2002	2003	2004	2005	2006	Thereafter		
<b>Long-term debt, including current portion</b>								
Variable rate	\$ —	\$ —	\$ 254,500	\$ —	\$ —	\$ —	\$ 254,500	\$ 254,500
Average interest rate	—	—	3.21%	—	—	—	3.21%	
Fixed rate	\$ 8,729	\$ 53,943	\$ 118,263	\$ 1,749	\$ 35	\$ 286,487	\$ 469,206	\$ 470,940
Average interest rate	6.96%	6.70%	7.25%	7.00%	7.00%	7.74%	7.48%	
<b>Portion subject to interest rate swaps</b>								
Variable to fixed	\$ 19,500	\$ 15,000	\$ 20,000	\$ 20,000	\$ —	\$ —	\$ 74,500	\$ (3,453)
Average rate to be received	2.00%	4.40%	5.80%	6.20%	—	—	4.42%	
Average rate to be paid	6.31%	6.31%	6.31%	6.31%	—	—	6.31%	

#### Foreign currency risk

We have entered into foreign currency swap agreements with a major financial institution to hedge firm foreign currency commitments. As of December 31, 2001, the following table presents principal cash flows of our open currency swap agreements:

In thousands	Expected year of maturity						Total	Fair value
	2002	2003	2004	2005	2006	Thereafter		
<b>Forward exchange agreements <sup>(1)</sup></b>								
Receive U.S. dollars	\$ —	\$ 50,000	\$ —	\$ —	\$ —	\$ —	\$ 50,000	\$ 7,209
Pay Canadian dollars	—	69,385	—	—	—	—	69,385	
Receive Canadian dollars	\$ —	\$ 69,385	\$ —	\$ —	\$ —	\$ —	\$ 69,385	\$ 4,171
Pay Euros	—	45,313	—	—	—	—	45,313	
<b>Total exchange gain</b>								<b>\$ 11,380</b>

<sup>(1)</sup> Foreign exchange information is presented in local currency by maturity, however, the fair value is presented in U.S. dollars

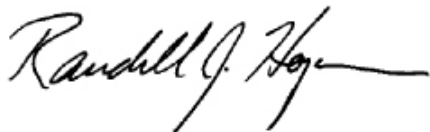
**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF MANAGEMENT**

We are responsible for the integrity and objectivity of the financial information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include certain amounts based on our best estimates and judgment.

We are also responsible for establishing and maintaining our accounting systems and related internal controls, which are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded. These systems and controls are reviewed by the internal auditors. In addition, our code of conduct states that our affairs are to be conducted under the highest ethical standards.

The independent auditors provide an independent review of the financial statements and the fairness of the information presented therein. The Audit and Finance Committee of the Board of Directors, composed solely of outside directors, meets regularly with us, our internal auditors and our independent auditors to review audit activities, internal controls, and other accounting, reporting, and financial matters. Both the independent auditors and internal auditors have unrestricted access to the Audit and Finance Committee.



Randall J. Hogan  
*President and Chief Executive Officer*  
St. Paul, Minnesota  
February 8, 2002



David D. Harrison  
*Executive Vice President and Chief Financial Officer*

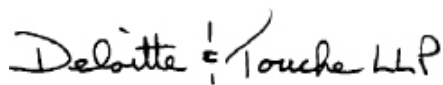
**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors and Shareholders of Pentair, Inc.:**

We have audited the accompanying consolidated balance sheets of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota  
February 8, 2002

**Pentair, Inc. and Subsidiaries**  
**Consolidated Statements of Income**

	Years ended December 31		
	2001	2000	1999
<i>In thousands, except per-share data</i>			
Net sales	\$ 2,615,944	\$ 2,748,013	\$ 2,116,070
Cost of goods sold	1,967,945	2,051,515	1,529,419
Gross profit	647,999	696,498	586,651
Selling, general and administrative	418,962	438,488	339,707
Research and development	31,171	31,191	22,170
Restructuring charge	40,105	24,789	23,048
Operating income	157,761	202,030	201,726
Interest income	960	1,488	1,472
Interest expense	62,448	76,387	45,054
Other expense, write-off of investment	2,985	—	—
Income from continuing operations before income taxes	93,288	127,131	158,144
Provision for income taxes	35,772	45,263	60,056
Income from continuing operations	57,516	81,868	98,088
Income (loss) from discontinued operations, net of tax	—	(24,759)	5,221
Loss on disposal of discontinued operations, net of tax	(24,647)	—	—
Cumulative effect of accounting change, net of tax	—	(1,222)	—
Net income	\$ 32,869	\$ 55,887	\$ 103,309
<b>Earnings per common share</b>			
<i>Basic</i>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.24
Discontinued operations	(0.50)	(0.51)	0.12
Cumulative effect of accounting change	—	(0.02)	—
Basic earnings per common share	\$ 0.67	\$ 1.15	\$ 2.36
<i>Diluted</i>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.21
Discontinued operations	(0.50)	(0.51)	0.12
Cumulative effect of accounting change	—	(0.02)	—
Diluted earnings per common share	\$ 0.67	\$ 1.15	\$ 2.33
<b>Pro forma amounts assuming the accounting change is applied retroactively</b>			
Continuing operations	\$ 57,516	\$ 81,868	\$ 97,514
Discontinued operations	(24,647)	(24,759)	5,221
Net income	\$ 32,869	\$ 57,109	\$ 102,735
<b>Pro forma earnings per common share</b>			
<i>Basic</i>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.23
Discontinued operations	(0.50)	(0.51)	0.12
Basic earnings per common share	\$ 0.67	\$ 1.17	\$ 2.35
<i>Diluted</i>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.20
Discontinued operations	(0.50)	(0.51)	0.12
Diluted earnings per common share	\$ 0.67	\$ 1.17	\$ 2.32
<b>Weighted average common shares outstanding</b>			
Basic	49,047	48,544	43,803
Diluted	49,297	48,645	44,287

See accompanying notes to consolidated financial statements.



**Pentair, Inc. and Subsidiaries****Consolidated Balance Sheets**

December 31

*In thousands, except share and per-share data*

	2001	2000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 39,844	\$ 34,944
Accounts and notes receivable, net of allowance of \$14,142 and \$18,636, respectively	398,579	468,081
Inventories	300,923	392,495
Deferred income taxes	69,953	72,577
Prepaid expenses and other current assets	20,979	22,442
Net assets of discontinued operations	5,325	101,263
<b>Total current assets</b>	<b>835,603</b>	<b>1,091,802</b>
<b>Property, plant and equipment, net</b>	<b>329,500</b>	<b>352,984</b>
<b>Other assets</b>		
Goodwill, net	1,088,206	1,141,102
Other	118,889	58,137
<b>Total other assets</b>	<b>1,207,095</b>	<b>1,199,239</b>
<b>Total assets</b>	<b>\$ 2,372,198</b>	<b>\$ 2,644,025</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Short-term borrowings	\$ —	\$ 108,141
Current maturities of long-term debt	8,729	23,999
Accounts and notes payable	179,149	250,088
Employee compensation and benefits	74,888	84,197
Accrued product claims and warranties	37,590	42,189
Income taxes	6,252	5,487
Other current liabilities	121,825	134,691
<b>Total current liabilities</b>	<b>428,433</b>	<b>648,792</b>
Long-term debt	714,977	781,834
Pension and other retirement compensation	74,263	59,313
Postretirement medical and other benefits	43,583	34,213
Deferred income taxes	34,128	37,133
Other noncurrent liabilities	61,812	72,149
<b>Total liabilities</b>	<b>1,357,196</b>	<b>1,633,434</b>
Commitments and contingencies		
<b>Shareholders' equity</b>		
Common shares par value \$0.16 <sup>2</sup> / <sub>3</sub> ; 49,110,859 and 48,711,955 shares issued and outstanding, respectively	8,193	8,119
Additional paid-in capital	478,541	468,425
Retained earnings	566,626	568,084
Unearned restricted stock compensation	(9,440)	(7,285)
Accumulated other comprehensive loss	(28,918)	(26,752)
<b>Total shareholders' equity</b>	<b>1,015,002</b>	<b>1,010,591</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,372,198</b>	<b>\$ 2,644,025</b>

*See accompanying notes to consolidated financial statements.*

**Pentair, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

<i>In thousands</i>	Years ended December 31		
	2001	2000	1999
<b>Operating activities</b>			
Net income	\$ 32,869	\$ 55,887	\$ 103,309
Depreciation	62,674	59,897	56,081
Amortization of intangibles and unearned compensation	41,675	39,131	25,987
Deferred income taxes	(5,315)	9,735	(1,954)
Restructuring charge	41,060	24,789	23,048
Other expense, write-off of investment	2,985	—	—
Loss on disposal of discontinued operations	24,647	—	—
Cumulative effect of accounting change	—	1,222	—
<b>Changes in assets and liabilities, net of effects of business acquisitions and dispositions</b>			
Accounts and notes receivable	70,890	17,908	(28,282)
Inventories	87,840	(45,893)	(26,449)
Prepaid expenses and other current assets	653	(9,588)	7,779
Accounts payable	(69,321)	32,973	26,423
Employee compensation and benefits	(13,185)	(10,810)	32,660
Accrued product claims and warranties	(4,468)	(6,318)	8,344
Income taxes	9,942	(8,467)	(4,462)
Other current liabilities	(50,758)	(17,715)	(48,076)
Pension and post-retirement benefits	17,199	5,353	953
Other assets and liabilities	(7,205)	(7,296)	(18,791)
Net cash provided by continuing operations	242,182	140,808	156,570
Net cash provided by (used for) discontinued operations	(9,848)	44,139	(12,274)
Net cash provided by operating activities	232,334	184,947	144,296
<b>Investing activities</b>			
Capital expenditures	(53,668)	(68,041)	(53,671)
Proceeds from sale of businesses	70,100	—	—
Acquisitions, net of cash acquired	(1,937)	—	(953,124)
Equity investments	(25,438)	—	—
Other	(186)	(32)	1,664
Net cash used for investing activities	(11,129)	(68,073)	(1,005,131)
<b>Financing activities</b>			
Net short-term borrowings (repayments)	(108,336)	(42,471)	150,612
Proceeds from long-term debt	2,811	8,108	351,297
Repayment of long-term debt	(84,525)	(82,271)	(59,814)
Proceeds from long-term bonds	—	—	250,000
Debt issuance costs	—	—	(2,430)
Proceeds from bridge loans	—	—	450,000
Repayment of bridge loans	—	—	(450,000)
Proceeds from exercise of stock options	2,913	3,100	4,454
Proceeds from issuance of common stock, net	—	774	214,480
Repurchases of common stock	(1,458)	(410)	(4,030)
Dividends paid	(34,327)	(32,038)	(28,201)
Net cash provided by (used for) financing activities	(222,922)	(145,208)	876,368
<b>Effect of exchange rate changes on cash</b>	6,617	263	18,344
<b>Change in cash and cash equivalents</b>	4,900	(28,071)	33,877
<b>Cash and cash equivalents, beginning of period</b>	34,944	63,015	29,138
<b>Cash and cash equivalents, end of period</b>	\$ 39,844	\$ 34,944	\$ 63,015

*See accompanying notes to consolidated financial statements.*

**Pentair, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Shareholders' Equity**

In thousands, except share and per-share data	Preferred shares		Common shares		Additional paid-in capital	Retained earnings	Unearned restricted stock compensation	Accumulated other comprehensive loss	Total	Comprehensive income
	Number	Amount	Number	Amount						
<b>Balance — December 31, 1998</b>	1,534,919	\$ 53,638	38,503,587	\$ 6,417	\$ 184,145	\$ 469,127	\$ (1,737)	\$ (3,962)	\$ 707,628	
Net income						103,309			103,309	\$ 103,309
Change in cumulative translation adjustment								(13,027)	(13,027)	(13,027)
Adjustment in minimum pension liability, net of \$889 tax expense								1,390	1,390	1,390
<b>Comprehensive income</b>										<b>\$ 91,672</b>
Tax benefit of stock options					3,190				3,190	
Cash dividends — \$0.64 per common share						(28,201)			(28,201)	
Issuance of common shares from secondary offering			5,500,000	917	213,563				214,480	
Share repurchases			(117,000)	(19)	(4,011)				(4,030)	
Exercise of stock options			321,278	53	4,401				4,454	
Issuance of restricted shares, net of cancellations			30,616	5	2,270		(2,275)		—	
Amortization of restricted shares							1,578		1,578	
Conversion into common stock	(1,534,919)	(53,638)	4,078,587	680	52,958				—	
<b>Balance — December 31, 1999</b>	—	—	48,317,068	8,053	456,516	544,235	(2,434)	(15,599)	990,771	
Net income						55,887			55,887	\$ 55,887
Change in cumulative translation adjustment								(9,705)	(9,705)	(9,705)
Adjustment in minimum pension liability, net of \$926 tax benefit								(1,448)	(1,448)	(1,448)
<b>Comprehensive income</b>										<b>\$ 44,734</b>
Tax benefit of stock options					985				985	
Cash dividends — \$0.66 per common share						(32,038)			(32,038)	
Adjustment for 1999 secondary offering					774				774	
Share repurchases			(13,700)	(2)	(408)				(410)	
Exercise of stock options			151,529	25	3,075				3,100	
Issuance of restricted shares, net of cancellations			257,058	43	7,483		(7,526)		—	
Amortization of restricted shares							2,675		2,675	
<b>Balance — December 31, 2000</b>	—	—	48,711,955	8,119	468,425	568,084	(7,285)	(26,752)	1,010,591	
Net income						32,869			32,869	\$ 32,869
Cumulative effect of accounting change								6,739	6,739	6,739
Change in cumulative translation adjustment								(9,468)	(9,468)	(9,468)
Adjustment in minimum pension liability, net of \$399 tax benefit								(625)	(625)	(625)
Changes in market value of derivative financial instruments								1,188	1,188	1,188
<b>Comprehensive income</b>										<b>\$ 30,703</b>
Tax benefit of stock options					601				601	
Cash dividends — \$0.70 per common share						(34,327)			(34,327)	
Share repurchases			(50,000)	(8)	(1,450)				(1,458)	
Exercise of stock options			128,254	21	2,892				2,913	
Issuance of restricted shares, net of cancellations			320,650	61	7,662		(7,723)		—	
Amortization of restricted shares							5,568		5,568	
Stock compensation					411				411	
<b>Balance — December 31, 2001</b>	—	\$ —	49,110,859	\$ 8,193	\$ 478,541	\$ 566,626	\$ (9,440)	\$ (28,918)	\$ 1,015,002	

See accompanying notes to consolidated financial statements.

***Pentair, Inc. and subsidiaries***  
***Notes to consolidated financial statements***

**1. Summary of Significant Accounting Policies**

***Fiscal year***

Our fiscal year ends on December 31. Additionally, we report our interim quarterly periods on a 13-week basis ending on a Saturday.

***Principles of consolidation***

The accompanying consolidated financial statements include the accounts of Pentair, and all significant subsidiaries, both U.S. and non-U.S., that we control. In substantially all cases, we own 100 percent of the voting stock of the subsidiaries that we control. Investments in companies of which we own 20 percent to 50 percent of the voting stock and have the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting and, as a result, our share of the earnings or losses of such equity affiliates is included in the statement of income. All intercompany accounts and transactions have been eliminated in consolidation. Certain balances have been reclassified to conform to the 2001 presentation.

***Use of estimates***

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

***Cash equivalents***

We consider highly liquid investments with original maturities of three months or less to be cash equivalents.

***Revenue recognition, sales returns and warranty costs***

We recognize revenue when the earnings process is complete, and the risks and rewards of ownership have transferred to the customer. Provisions for sales returns and warranty costs are recorded at the time of sale based on historical information and current trends.

In December 1999, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101), which among other guidance, clarified the Staff's views on various revenue recognition and reporting matters. In the fourth quarter of 2000, we changed our method of accounting for certain sales transactions to comply with SAB 101. As a result of this change, we reported a change in accounting principle in accordance with Accounting Principles Board Opinion No. 20 (APB 20), *Accounting Changes*, by a cumulative effect adjustment. Because we are a calendar year entity that adopted SAB 101 in the fourth quarter of 2000, the cumulative effect of the change was included in the first quarter of 2000 pursuant to APB 20, which requires that the change be made as of the beginning of the year (January 1, 2000) and that the financial information for pre-change interim periods be restated by applying SAB 101 to those periods. Accordingly, the quarterly results for 2000 were restated pursuant to the adoption of SAB 101.

***Inventories***

Inventories are stated at the lower of cost or market. Inventories of domestic subsidiaries are generally determined by the last-in, first-out (LIFO) method. Inventories of foreign subsidiaries are determined by the first-in, first-out (FIFO) and moving average methods. Reserves to adjust slow moving and obsolete inventories to lower of cost or market are provided based on historical experience and current product demand. We regularly evaluate the adequacy of these reserves.

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### ***Pentair, Inc. and subsidiaries***

#### ***Notes to consolidated financial statements — (continued)***

#### ***Property, plant, and equipment***

Property, plant and equipment is recorded at cost. We compute depreciation principally by the straight-line method based on the following estimated useful lives:

	<u>Years</u>
Land improvements	5 to 20
Buildings and leasehold improvements	5 to 50
Machinery and equipment	3 to 15

Significant improvements that add to productive capacity or extend the lives of properties are capitalized. Costs for repairs and maintenance are charged to expense as incurred. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in income.

#### ***Goodwill***

Goodwill represents the excess of the cost over the net tangible and identified intangible assets of acquired businesses, is stated at cost, and amortized on a straight-line basis over the estimated future periods to be benefited, ranging from 25 to 40 years. Upon the adoption of Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*, effective January 1, 2002, goodwill will no longer be amortized, but will be evaluated annually for impairment. Accumulated amortization as of the end of 2001 and 2000 was \$147.4 million and \$114.4 million, respectively.

#### ***Impairment of long-lived assets***

We review long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets and any related goodwill, the carrying value is reduced to the estimated fair value as measured by the discounted cash flow method. Losses on long-lived assets to be disposed of are based upon estimated selling prices adjusted for the cost to sell.

#### ***Income taxes***

Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax law. Changes in enacted tax rates are reflected in the tax provision as they occur.

#### ***Foreign currency translation***

Assets and liabilities denominated in foreign currency are translated at the current exchange rate as of the balance sheet date, and income statement amounts are translated at the average monthly exchange rate. Translation adjustments resulting from fluctuations in exchange rates are recorded in comprehensive income.

#### ***Stock-based compensation***

In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), we elected to account for our stock-based compensation using the intrinsic value method prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25).

The exercise price of stock options equals the market price on the date of grant. In general, there is no recorded compensation expense related to stock options.

#### ***Insurance subsidiary***

We insure general and product liability, product recall, workers' compensation, and automobile liability risks through our wholly owned insurance subsidiary. Reserves for policy claims are established based on actuarial projections of ultimate losses. As of the end of 2001 and 2000, reserves for policy claims were \$23.4 million

**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

(\$10.0 million included in *accrued product claims and warranties* and \$13.4 million included in *other noncurrent liabilities*) and \$26.2 million (\$10.0 million included in *accrued product claims and warranties* and \$16.2 million included in *other noncurrent liabilities*).

**Derivative financial instruments**

Effective January 1, 2001, we adopted the provisions of SFAS No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended. These standards require us to recognize all derivatives, including those embedded in other contracts, as either assets or liabilities at fair value in our balance sheet. If the derivative is designated as a fair-value hedge, the changes in the fair value of the derivative and the hedged item is recognized in earnings. If the derivative is designated and is effective as a cash-flow hedge, changes in the fair value of the derivative is recorded in other comprehensive income (OCI) and is recognized in the consolidated statements of income when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that is not designated as or does not qualify as a hedge, changes in fair value are reported in earnings immediately.

The adoption of SFAS 133 on January 1, 2001, resulted in an increase to other assets and other noncurrent liabilities of \$7.5 million and \$0.8 million, respectively, and a cumulative transition adjustment of \$6.7 million in OCI. The transition adjustment relates to our hedging activities through December 31, 2000. Prior to the adoption of SFAS 133, financial instruments designated as hedges were not recorded in the financial statements, but cash flows from such contracts were recorded as adjustments to earnings as the hedged items affected earnings.

We use derivative financial instruments for the purpose of hedging interest rate and currency exposures, which exist as part of ongoing business operations. All hedging instruments are designated and effective as hedges, in accordance with the provisions of SFAS 133. We do not hold or issue derivative financial instruments for trading or speculative purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. Our policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

**Earnings per common share**

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding, including the dilutive effects of stock options, restricted stock, and assumed conversion of preferred stock. Unless otherwise noted, references are to diluted earnings per share.

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

In thousands, except per-share data

	2001	2000	1999
<b>Earnings per common share — basic</b>			
Continuing operations	\$ 57,516	\$ 81,868	\$ 98,088
Discontinued operations	(24,647)	(24,759)	5,221
Cumulative effect of accounting change	—	(1,222)	—
<b>Net income</b>	<b>\$ 32,869</b>	<b>\$ 55,887</b>	<b>\$ 103,309</b>
<b>Earnings per common share — diluted</b>			
Continuing operations	\$ 57,516	\$ 81,868	\$ 98,088
Discontinued operations	(24,647)	(24,759)	5,221
Cumulative effect of accounting change	—	(1,222)	—
<b>Net income</b>	<b>\$ 32,869</b>	<b>\$ 55,887</b>	<b>\$ 103,309</b>
<b>Earnings per common share — basic</b>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.24
Discontinued operations	(0.50)	(0.51)	0.12
Cumulative effect of accounting change	—	(0.02)	—
<b>Basic earnings per common share</b>	<b>\$ 0.67</b>	<b>\$ 1.15</b>	<b>\$ 2.36</b>
<b>Earnings per common share — diluted</b>			
Continuing operations	\$ 57,516	\$ 81,868	\$ 98,088
Discontinued operations	(24,647)	(24,759)	5,221
Cumulative effect of accounting change	—	(1,222)	—
<b>Net income</b>	<b>\$ 32,869</b>	<b>\$ 55,887</b>	<b>\$ 103,309</b>
<b>Earnings per common share — diluted</b>			
Continuing operations	\$ 1.17	\$ 1.68	\$ 2.21
Discontinued operations	(0.50)	(0.51)	0.12
Cumulative effect of accounting change	—	(0.02)	—
<b>Diluted earnings per common share</b>	<b>\$ 0.67</b>	<b>\$ 1.15</b>	<b>\$ 2.33</b>
<b>Weighted average common shares outstanding — basic</b>			
	49,047	48,544	43,803
Dilutive impact of stock options, restricted stock, and assumed conversion of preferred stock	250	101	484
<b>Weighted average common shares outstanding — diluted</b>	<b>49,297</b>	<b>48,645</b>	<b>44,287</b>

There were 1.3 million, 1.1 million, and 0.2 million stock options excluded in 2001, 2000 and 1999, respectively, from the computation of diluted earnings per common share due to their anti-dilutive effect.

**New accounting standards**

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (SFAS 141), *Business Combinations*, and SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. All of our acquisitions in recent years were accounted for under the purchase method. The new standard had no impact on Pentair in 2001. SFAS 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. We will adopt the provisions of SFAS 142 effective January 1, 2002. Had SFAS 142 been in effect for 2001, net income would have been \$32.0 million (\$36.1 million pre-tax) or \$0.65 per share higher. The standard also requires a reassessment of the useful lives of identifiable intangible assets other than goodwill and a test for impairment of goodwill and intangibles with indefinite lives annually, or more frequently if events and circumstances indicate that the carrying amounts may not be recoverable. We expect to complete this assessment in the first half of 2002.

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

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### ***Pentair, Inc. and subsidiaries***

#### ***Notes to consolidated financial statements — (continued)***

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. We will adopt SFAS 144 on January 1, 2002. We do not expect the adoption of this new standard to have a material effect on our historical consolidated results of operations, financial position and cash flows.

## **2. Restructuring Charge**

### **1999 restructuring charge**

To reduce costs and improve productivity, we initiated a restructuring program in the first quarter of 1999 to consolidate manufacturing facilities, reduce overhead, and outsource certain product lines in our Tools and Enclosures segments. Related to this program, we recorded a restructuring charge of \$23.0 million. In the first quarter of 2000 we re-evaluated the status and progress of projects implemented in 1999 and recorded a change in estimate that reduced the restructuring charge by \$8.5 million. In addition, new projects were identified and we recorded an additional restructuring charge of \$6.0 million related to our Enclosures segment for the closure of a North American facility and the non-cash write-off of impaired goodwill. In the fourth quarter of 2000, we recorded a final change in estimate that increased the restructuring charge by \$0.5 million. As of the end of 2000, this restructuring program was complete.

### **2000 restructuring charge**

To reduce costs and improve productivity and accountability, we initiated a restructuring program in the fourth quarter of 2000 to decentralize corporate service functions and reorganize our Tools segment infrastructure. As a result, we recorded a restructuring charge of \$26.8 million. In the fourth quarter of 2001, we recorded a final change in estimate that reduced the restructuring charge by \$1.7 million primarily due to favorable negotiation of contract termination costs. As of the end of 2001, this restructuring program was complete.

### **2001 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, of which \$1.0 million is included in *cost of goods sold* on the consolidated statement of income for the write-down of inventory on certain custom enclosures product that was discontinued as a result of plant closures.

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

The major components of the 1999, 2000 and 2001 restructuring charges and remaining restructuring liability follows:

<i>In thousands</i>	Employee termination benefits	Non-cash asset disposals	Impaired goodwill	Exit costs	Total
1999 restructuring charge (first quarter)	\$ 21,288	\$ 1,100	\$ —	\$ 660	\$ 23,048
Utilization of 1999 restructuring charge	(8,678)	—	—	(167)	(8,845)
December 31, 1999 liability	12,610	1,100	—	493	14,203
Change in estimate (first quarter)	(9,110)	—	—	602	(8,508)
2000 restructuring charge (first quarter)	800	915	2,985	1,340	6,040
Change in estimate (fourth quarter)	747	42	—	(332)	457
2000 restructuring charge (fourth quarter)	7,888	10,518	—	8,394	26,800
Utilization of 1999 and 2000 restructuring charges	(5,047)	(12,575)	(2,985)	(2,190)	(22,797)
December 31, 2000 liability	7,888	—	—	8,307	16,195
Change in estimate (fourth quarter)	991	—	—	(2,688)	(1,697)
2001 restructuring charge (fourth quarter)	16,696	11,050	7,362	7,649	42,757
Utilization of 2000 and 2001 restructuring charges	(11,343)	(11,050)	(7,362)	(6,388)	(36,143)
December 31, 2001 liability	\$ 14,232	\$ —	\$ —	\$ 6,880	\$ 21,112

Included in *other current liabilities* on the consolidated balance sheets is the unused portion of the restructuring charge liability of \$21.1 million. We expect to complete the remaining restructuring activities in 2002.

As a result of our 1999 and 2000 restructuring charge programs, we reduced our workforce by approximately 800 and 225 employees, respectively. Workforce reductions related to the 2001 restructuring charge are for approximately 720 employees, of whom 227 were terminated in the fourth quarter of 2001. Employee termination benefits consist primarily of severance and outplacement counseling fees. Employee termination benefits for the 2001 restructuring charge includes a \$0.4 million non-cash charge for the intrinsic value of stock options modified as part of a severance agreement.

Non-cash asset disposals for the 1999, 2000, and 2001 restructuring charges were for the write-down of equipment, leasehold improvements, and inventory (2001 only) as a direct result of our decisions to exit certain facilities and the abandonment of internal use software under development. Exit costs are primarily related to contract and lease termination costs.

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

The following table summarizes the components of the 1999, 2000 and 2001 restructuring charges by segment, net of changes in estimates:

<i>In thousands</i>	Tools	Enclosures	Other	Total
Employee termination benefits	\$ 5,105	\$ 16,183	\$ —	\$ 21,288
Non-cash asset disposals	1,100	—	—	1,100
Facility exit costs	100	560	—	660
<b>1999 restructuring charge</b>	<b>\$ 6,305</b>	<b>\$ 16,743</b>	<b>\$ —</b>	<b>\$ 23,048</b>
Employee termination benefits	\$ (96)	\$ (6,064)	\$ 6,485	\$ 325
Non-cash asset disposals	(55)	1,012	10,518	11,475
Impaired goodwill	—	2,985	—	2,985
Exit costs	5,547	442	4,015	10,004
<b>2000 restructuring charge</b>	<b>\$ 5,396</b>	<b>\$ (1,625)</b>	<b>\$ 21,018</b>	<b>\$ 24,789</b>
Employee termination benefits	\$ —	\$ 16,696	\$ 991	\$ 17,687
Non-cash asset disposals	—	7,675	3,375	11,050
Impaired goodwill	—	7,362	—	7,362
Exit costs	—	7,649	(2,688)	4,961
<b>2001 restructuring charge</b>	<b>\$ —</b>	<b>\$ 39,382</b>	<b>\$ 1,678</b>	<b>\$ 41,060</b>

**3. Discontinued Operations/Divestitures**

In December 2000, we adopted a plan to sell our Equipment segment businesses, Service Equipment (Century Mfg Co./Lincoln Automotive Company) and Lincoln Industrial, Inc (Lincoln Industrial). In October 2001, we completed the sale of the Service Equipment businesses to Clore Automotive, LLC and in December 2001, we completed the sale of Lincoln Industrial to affiliates of The Jordan Company LLC, other investors, and members of management of Lincoln Industrial.

The following table summarizes the components of the proceeds from the sales:

<i>In thousands</i>	Century/ Lincoln Automotive <sup>(1)</sup>	Lincoln Industrial	Equipment Segment
Cash	\$ —	\$ 58,047	\$ 58,047
Short-term notes receivable	18,160	1,000	19,160
Long-term notes receivable	—	1,000	1,000
Preferred stock	—	18,400	18,400
<b>Total proceeds</b>	<b>\$ 18,160</b>	<b>\$ 78,447</b>	<b>\$ 96,607</b>

<sup>(1)</sup> Amount received as of the end of 2001 was \$12,053.

As part of the sale of Lincoln Industrial, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization — LN Holdings Corporation. The preferred stock has a \$37.5 million face value, but has been recorded at \$18.4 million, which represents the estimated fair value of the preferred stock based on an independent valuation. The selling price of Lincoln Industrial is subject to a final purchase price adjustment based on determination of audited net assets, which we expect to occur in the first half of 2002.

Our financial statements have been restated to reflect the Equipment segment as a discontinued operation for all periods presented. Operating results of the discontinued Equipment segment are summarized below. The amounts

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

exclude general corporate overhead previously allocated to the Equipment segment. The amounts include an allocation of interest based on a ratio of the net assets of the discontinued operations to the total net assets of Pentair.

<i>In thousands</i>	2001	2000	1999
Net sales	\$ 189,782	\$ 255,256	\$ 318,334
Pre-tax income (loss) from operations of discontinued businesses	\$ —	\$ (37,809)	\$ 8,385
Pre-tax loss on disposal of discontinued businesses	(36,298)	—	—
Provision for income taxes	(11,651)	(13,050)	3,164
<b>Income (loss) from discontinued operations, net of tax</b>	<b>\$ (24,647)</b>	<b>\$ (24,759)</b>	<b>\$ 5,221</b>

*Net assets of the discontinued Equipment segment consisted of the following:*

<i>In thousands</i>	2001	2000
Net current assets	\$ 1,988	\$ 59,708
Property, plant and equipment, net	3,337	28,339
Net other noncurrent assets and liabilities	—	13,216
<b>Net assets of discontinued operations</b>	<b>\$ 5,325</b>	<b>\$ 101,263</b>

Net assets of the discontinued Equipment segment as of the end of 2001 consisted of consigned inventory and certain property and equipment of Service Equipment that were not included in the sale of the business. These assets have been stated at estimated net realizable value and we expect to dispose of them in 2002.

**4. Acquisitions**

All of the following acquisitions were accounted for as purchases and, accordingly, the respective purchase prices were allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the consolidated statements of income from the respective acquisition dates forward.

*A summary of our purchase transactions for the past three years is included in the following table (In thousands):*

Entity name and description of business acquired	Business segment	Date acquired	Consideration	Intangibles
<b>2001 acquisitions</b>				
Metalurgica Taunus LTDA. (Taunus) Manufacturer of electrical and electronic enclosures	Enclosures	1/01	\$ 6,937	\$ 5,854
<b>1999 acquisitions</b>				
DeVilbiss Air Power Company Manufacturer of air compressors, generators, and pressure washers	Tools	9/99	466,579	360,445
Essef Corporation (Structural Fibers and Pac-Fab) Manufacturer of pressure vessels and pool and spa equipment	Water	8/99	424,633	349,608
WEB Tool & Manufacturing, Inc. Designer, manufacturer and marketer of custom server subracks for the datacom and telecom markets	Enclosures	4/99	61,912	45,342

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### **Pentair, Inc. and subsidiaries**

#### **Notes to consolidated financial statements — (continued)**

In the second quarter of 2001, we received \$5.0 million for the settlement of a purchase price dispute related to a 1999 acquisition. The amount received was accounted for as a reduction of goodwill.

### **5. Supplemental Balance Sheet Information**

*In thousands*

	2001	2000
<b>Inventories</b>		
Raw materials and supplies	\$ 94,404	\$ 110,935
Work-in-process	38,760	48,392
Finished goods	167,759	233,168
<b>Total inventories</b>	<b>\$ 300,923</b>	<b>\$ 392,495</b>
<b>Property, plant and equipment</b>		
Land and land improvements	\$ 16,688	\$ 17,238
Buildings and leasehold improvements	152,873	149,620
Machinery and equipment	518,141	496,175
Construction in progress	21,304	25,682
<b>Total property, plant and equipment</b>	<b>709,006</b>	<b>688,715</b>
Less accumulated depreciation and amortization	379,506	335,731
<b>Property, plant and equipment, net</b>	<b>\$ 329,500</b>	<b>\$ 352,984</b>
<b>Other assets</b>		
Equity method investments	\$ 25,247	\$ —
Cost method investments	23,400	—
Fair market value of currency swaps	11,380	—
Other	58,862	58,137
<b>Total other assets</b>	<b>\$ 118,889</b>	<b>\$ 58,137</b>

Certain inventories are valued at LIFO. If all inventories were valued at FIFO as of the end of 2001 and 2000, inventories would have been \$305.6 million and \$396.9 million, respectively.

#### **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 \$20.4 million has been paid and \$4.5 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 *cost of goods sold*, however, was not material.

#### **Cost method investments**

As part of the sale of Lincoln Industrial, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization — LN Holdings Corporation. The preferred stock has a \$37.5 million face value, but has been recorded at \$18.4 million, which represents the estimated fair value of the preferred stock based on an independent valuation.

In 2001, we invested \$5.0 million (\$3.0 million in the second quarter and \$2.0 million in the fourth quarter) to take a minority equity interest in a privately held developer and manufacturer of laser leveling and measuring devices.

[Table of Contents](#)**Pentair, Inc. and subsidiaries****Notes to consolidated financial statements — (continued)****6. Supplemental Cash Flow Information**

The following table summarizes supplemental cash flow information:

<i>In thousands</i>	2001	2000	1999
Interest payments	\$ 69,411	\$ 81,401	\$ 46,359
Income tax payments	3,224	42,449	68,108

**Supplemental disclosure of non-cash investing and financing activities**

As part of the sale of Lincoln Industrial, we received 37,500 shares of 5% Series C Junior Convertible Redeemable Preferred Stock convertible into a 15 percent equity interest in the new organization – LN Holdings Corporation. The preferred stock has a \$37.5 million face value, but has been recorded at \$18.4 million, which represents the estimated fair value of the preferred stock based on an independent valuation.

**7. Accumulated Other Comprehensive Loss**

Components of accumulated other comprehensive loss consist of the following:

<i>In thousands</i>	2001	2000	1999
Minimum pension liability adjustments, net of tax	\$ (3,058)	\$ (2,433)	\$ (985)
Foreign currency translation adjustments	(33,787)	(24,319)	(14,614)
Market value of derivative financial instruments	7,927	—	—
Accumulated other comprehensive loss	\$ (28,918)	\$ (26,752)	\$ (15,599)

**8. Debt****Credit facilities**

We have committed revolving credit facilities totaling \$705 million (the Facilities), consisting of a \$315 million 364-day facility that expires on August 29, 2002, and \$390 million of multi-currency facilities that expire on September 2, 2004. There were no amounts outstanding under the 364-day facility at December 31, 2001.

As of the end of 2001, we had \$329.0 million outstanding under the Facilities. Interest rates and fees on the Facilities vary based on our debt ratings by credit rating agencies. Aggregate borrowings on the Facilities had a weighted-average interest rate of 5.52 percent in 2001 and 6.71 percent in 2000. In addition to the Facilities, we have \$40.0 million of uncommitted credit facilities, under which we had no borrowings as of the end of 2001.

Our debt agreements contain certain financial covenants that restrict the amount paid for dividends and certain other payments, and require us to maintain certain financial ratios and a minimum net worth. Under the most restrictive covenant, \$101.4 million of retained earnings were restricted as of the end of 2001. We are in compliance with all covenants.

We have not accessed the commercial paper markets since the credit rating agencies lowered our commercial paper ratings during 2001.

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**Notes to consolidated financial statements — (continued)**

Long-term debt and the average interest rate on debt outstanding as of December 31, is summarized as follows:

<i>In thousands</i>	Average interest rate December 31, 2001	Maturity (Year)	2001	2000
Commercial paper, maturing within 60 days			\$ —	\$ 315,172
Revolving credit facilities	3.21%	2004	329,000	74,828
Private placement	6.78%	2002 - 2007	131,787	149,814
Senior notes	7.85%	2009	250,000	250,000
Other	Various	2002 - 2007	12,919	16,019
Long-term debt, including current portion			723,706	805,833
Less current maturities of long-term debt			(8,729)	(23,999)
Long-term debt			\$ 714,977	\$ 781,834

Long-term debt outstanding at December 31, 2001 matures as follows:

<i>In thousands</i>	2002	2003	2004	2005	2006	Thereafter	Total
Maturities	\$ 8,729	\$ 53,943	\$ 372,763	\$ 1,749	\$ 35	\$ 286,487	\$ 723,706

## 9. Derivative and Financial Instruments

### Cash-flow hedges

We have entered into interest rate swap agreements with a major financial institution to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. As of the end of 2001, we had swap agreements outstanding with an aggregate notional amount of \$74.5 million that expire in various amounts through June 2005. The swap agreements have a fixed interest rate of 6.31 percent.

We have entered into foreign currency swap agreements with a major financial institution to hedge firm foreign currency commitments. The currency swap agreements mature on October 1, 2003. The notional amounts were \$100.0 million in both 2001 and 2000. The currency swaps have terms that match the hedged exposure, thus no ineffectiveness is recorded.

The interest rate and currency swaps are designated as and are effective cash-flow hedges. The fair values of the swaps are recorded on the balance sheet, with changes in fair values included in other comprehensive income (OCI). The ineffective portion of the hedge is not material to the financial statements. Derivative gains and losses included in OCI are reclassified into earnings at the time the related interest expense is recognized or the settlement of the related commitment occurs. We estimate \$0.5 million of net derivative losses will be reclassified into earnings in 2002. No hedging relationships were de-designated during 2001.

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

**Fair value of financial instruments**

The recorded amounts and estimated fair values of financial instruments, including derivative financial instruments were as follows:

<i>In thousands</i>	2001		2000	
	Recorded amount	Fair value	Recorded amount	Fair value
<b>Long-term debt, including current portion</b>				
Variable rate	\$ 254,500	\$254,500	\$ 390,000	\$390,000
Fixed rate	469,206	470,940	415,833	399,087
<b>Total</b>	<b>\$ 723,706</b>	<b>\$725,440</b>	<b>\$ 805,833</b>	<b>\$789,087</b>
<b>Derivative financial instruments</b>				
Interest rate swap liability	\$ (3,453)	\$ (3,453)	\$ —	\$ (826)
Interest rate cap asset	—	—	—	59
Currency swap asset	11,380	11,380	—	7,506
<b>Market value of derivative financial instruments</b>	<b>\$ 7,927</b>	<b>\$ 7,927</b>	<b>\$ —</b>	<b>\$ 6,739</b>

The following methods were used to estimate the fair values of each class of financial instrument:

- short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable, and short-term borrowings) — recorded amount approximates fair value because of the short maturity period;
- long-term debt, including current maturities — fair value is based on market quotes available for issuance of debt with similar terms;
- interest rate swap agreements — fair value is based on market or dealer quotes; and
- currency swap — fair value is based on market or dealer quotes.

**10. Income Taxes**

*Income from continuing operations before income taxes consisted of the following:*

<i>In thousands</i>	2001	2000	1999
United States	\$ 103,446	\$ 89,111	\$ 146,420
International	(10,158)	38,020	11,724
<b>Income from continuing operations before taxes</b>	<b>\$ 93,288</b>	<b>\$ 127,131</b>	<b>\$ 158,144</b>

*The provision for income taxes from continuing operations consisted of the following:*

<i>In thousands</i>	2001	2000	1999
<b>Currently payable</b>			
Federal	\$ 19,790	\$ 18,869	\$ 48,122
State	3,131	2,132	8,220
International	6,849	16,708	8,869
<b>Total current taxes</b>	<b>29,770</b>	<b>37,709</b>	<b>65,211</b>
<b>Deferred</b>			
Federal	13,573	11,317	11
International	(7,571)	(3,763)	(5,166)
<b>Total deferred taxes</b>	<b>6,002</b>	<b>7,554</b>	<b>(5,155)</b>
<b>Total provision for income taxes</b>	<b>\$ 35,772</b>	<b>\$ 45,263</b>	<b>\$ 60,056</b>

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### **Pentair, Inc. and subsidiaries**

#### **Notes to consolidated financial statements — (continued)**

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations follows:

Percentages	2001	2000	1999
U.S. statutory income tax rate	35.0	35.0	35.0
State income taxes, net of federal tax benefit	3.7	2.1	3.6
Tax effect of international operations	(7.6)	(5.6)	(2.8)
Non-deductible goodwill	9.4	7.0	3.3
ESOP dividend benefit	(0.9)	(0.6)	(0.6)
Non-deductible restructuring charge items	3.3	—	—
Tax credits	(3.4)	(2.4)	(0.7)
All other, net	(1.2)	0.1	0.2
Effective tax rate on continuing operations	38.3	35.6	38.0

Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as “temporary differences.” We record the tax effect of these temporary differences as “deferred tax assets” (generally items that can be used as a tax deduction or credit in future periods) and “deferred tax liabilities” (generally items that we received a tax deduction for, but not yet been recorded in the consolidated statements of income).

The tax effects of the major items recorded as deferred tax assets and liabilities are:

In thousands	2001 Deferred tax		2000 Deferred tax	
	Assets	Liabilities	Assets	Liabilities
Accounts receivable allowances	\$ 6,220	\$ —	\$ 8,185	\$ —
Inventory reserves	10,220	—	10,194	—
Accelerated depreciation/amortization	—	23,200	—	23,166
Accrued product claims and warranties	29,668	—	31,791	—
Employee benefit accruals	46,153	—	39,113	—
Other, net	—	33,236	—	30,673
Total deferred taxes	\$ 92,261	\$ 56,436	\$ 89,283	\$ 53,839
Net deferred tax asset	\$ 35,825		\$ 35,444	

The determination of annual income tax expense takes into consideration amounts, which may be needed to cover exposures for open tax years. The Internal Revenue Service (IRS) has examined our U.S. federal income tax returns through 1997, and we have paid all tax claims. In addition, Esfef Corporation tax years 1995 through 1997 are currently under examination. We do not expect any material impact on earnings to result from the resolution of matters related to open tax years, however, actual settlements may differ from amounts accrued.

## **11. Benefit Plans**

### **Pension and post-retirement benefits**

We have various non-contributory defined-benefit pension plans that cover nearly all U.S. employees and many employees outside the United States. Pension benefits are based principally on an employee’s years of service and/or compensation levels near retirement. Our pension funding policy is to deposit with independent trustees amounts as required by applicable law. In addition, we also provide certain post-retirement health care and life insurance benefits for nearly all retirees. Generally, the post-retirement health care and life insurance plans require contributions from retirees.

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### Pentair, Inc. and subsidiaries

#### Notes to consolidated financial statements — (continued)

The weighted-average assumptions used for these plans consisted of:

Percentages	Pension benefits			Post-retirement		
	2001	2000	1999	2001	2000	1999
Discount rate	7.25	7.75	7.75	7.25	7.75	7.75
Expected return on plan assets	8.50	8.50	8.50			
Rate of compensation increase	5.00	5.00	5.00			

Components of the net periodic benefit cost are as follows:

In thousands	Pension benefits			Post-retirement		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 13,467	\$ 12,405	\$ 13,410	\$ 494	\$ 433	\$ 552
Interest cost	23,802	22,406	20,237	2,596	2,695	2,256
Expected return on plan assets	(26,897)	(29,672)	(27,635)	—	—	—
Amortization of transition (asset) obligation	25	(110)	(151)	—	—	—
Amortization of prior year service cost (benefit)	867	893	1,085	(906)	(990)	(990)
Recognized net actuarial gain	(1,196)	(5,183)	(3,309)	(374)	(73)	(67)
Special termination benefits	482	2,191	—	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 10,550</b>	<b>\$ 2,930</b>	<b>\$ 3,637</b>	<b>\$ 1,810</b>	<b>\$ 2,065</b>	<b>\$ 1,751</b>
Continuing operations	\$ 10,162	\$ 3,042	\$ 3,370	\$ 1,606	\$ 1,871	\$ 1,568
Discontinued operations	388	(112)	267	204	194	183
<b>Net periodic benefit cost</b>	<b>\$ 10,550</b>	<b>\$ 2,930</b>	<b>\$ 3,637</b>	<b>\$ 1,810</b>	<b>\$ 2,065</b>	<b>\$ 1,751</b>

The following tables present reconciliations of the benefit obligation of the plans, the plan assets of the pension plans, and the funded status of the plans:

In thousands	Pension benefits		Post-retirement	
	2001	2000	2001	2000
<b>Change in benefit obligation</b>				
Benefit obligation beginning of year	\$ 325,209	\$ 301,788	\$ 34,899	\$ 36,235
Service cost	13,467	12,405	494	433
Interest cost	23,802	22,406	2,596	2,695
Plan amendments	529	618	278	(245)
Actuarial (gain) loss	12,867	7,731	3,932	(2,527)
Special termination benefits	482	2,191	—	—
Disposition of Equipment segment	(26,638)	—	(4,083)	—
Translation gain	(1,112)	(1,545)	—	—
Benefits paid	(19,747)	(20,385)	(3,287)	(1,692)
<b>Benefit obligation end of year</b>	<b>\$ 328,859</b>	<b>\$ 325,209</b>	<b>\$ 34,829</b>	<b>\$ 34,899</b>
<b>Change in plan assets</b>				
Fair value of plan assets beginning of year	\$ 325,866	\$ 360,184	\$ —	\$ —
Actual return on plan assets	(14,119)	(15,119)	—	—
Disposition of Equipment segment	(26,042)	—	—	—
Company contributions	2,721	1,542	3,287	1,692
Translation gain	(241)	(356)	—	—
Benefits paid	(19,747)	(20,385)	(3,287)	(1,692)
<b>Fair value of plan assets end of year</b>	<b>\$ 268,438</b>	<b>\$ 325,866</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Funded status</b>				
Plan assets in excess of/(less than) benefit obligation	\$ (60,421)	\$ 657	\$ (34,829)	\$ (34,899)
Unrecognized cost:				
Net transition obligation	148	77	—	—
Net actuarial (gains) loss	10,912	(43,403)	(5,411)	(9,180)
Prior service cost (benefit)	2,913	3,609	(3,343)	(4,835)
<b>Net amount recognized</b>	<b>\$ (46,448)</b>	<b>\$ (39,060)</b>	<b>\$ (43,583)</b>	<b>\$ (48,914)</b>

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

Plan assets consist primarily of listed stocks and bonds as well as cash and short-term investments. Our common stock accounted for approximately 11 percent and 7 percent of plan assets as of the end of 2001 and 2000, respectively. The majority of the underfunding relates to foreign pension plans and our supplemental executive retirement plan which are not commonly funded.

Amounts recognized in the consolidated balance sheets consist of:

In thousands	Pension benefits		Post-retirement	
	2001	2000	2001	2000
Prepaid benefit cost	\$ 7,402	\$ 9,109	\$ —	\$ —
Accrued benefit liability	(60,379)	(53,690)	(43,583)	(48,914)
Intangible asset	1,516	1,532	—	—
Accumulated other comprehensive income — pre-tax	5,013	3,989	—	—
<b>Net amount recognized</b>	<b>\$ (46,448)</b>	<b>\$ (39,060)</b>	<b>\$ (43,583)</b>	<b>\$ (48,914)</b>

Pension plans with obligations in excess of plan assets were as follows:

In thousands	2001	2000
<b>Pension plans with an accumulated benefit obligation in excess of plan assets:</b>		
Fair value of plan assets	\$ 10,791	\$ 827
Accumulated benefit obligation	63,614	51,330
<b>Pension plans with a benefit obligation in excess of plan assets:</b>		
Fair value of plan assets	\$ 239,813	\$ 827
Benefit obligation	303,797	55,362

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

In thousands	Increase	Decrease
Effect on total of service and interest cost	\$ 63	\$ 55
Effect on post-retirement benefit obligation	751	647

Health care cost trend rate was 9.62 percent in 2001 and assumed to gradually decline to 5.5 percent in 2022.

**Savings plan**

We have a 401(k) plan (the plan) with an employee stock ownership (ESOP) bonus component, which covers certain union and nearly all-nonunion U.S. employees who meet certain age requirements. Under the plan, eligible U.S. employees may voluntarily contribute a percentage of their eligible compensation. Matching contributions are made in cash to employees who meet certain eligibility and service requirements. Our matching contribution is based on our financial performance and ranges from 30 percent to 90 percent of eligible employee contributions, limited to 4 percent of compensation contributed by employees.

In addition to the matching contribution, all employees who meet certain service requirements receive a discretionary ESOP contribution equal to 1.5 percent of annual eligible compensation.

Our combined contributions to the 401(k) and ESOP were \$9.8 million, \$11.9 million, and \$9.2 million in 2001, 2000, and 1999, respectively.

***Pentair, Inc. and subsidiaries***

***Notes to consolidated financial statements — (continued)***

**12. Shareholders' Equity**

***Authorized shares***

We may issue up to 250 million shares of common stock. Our Board of Directors may designate up to 15 million of those shares as preferred stock.

***Common share purchase rights***

We have a ten-year Share Rights Agreement dated July 31, 1995. Under this agreement, each outstanding share of our common stock has one common share purchase right attached to it and entitles the holder to purchase one share of our common stock, currently at a price of \$80 per share, subject to adjustment. However, these rights are not exercisable unless certain change-in-control events transpire, such as a person acquiring or obtaining the right to acquire beneficial ownership of 15 percent or more of our outstanding common stock.

The rights are redeemable by us for \$0.01 per right until ten business days after certain defined change-in-control events transpire, or at any time prior to the expiration of the rights.

***Share repurchases***

In December 2001, the Board of Directors authorized the repurchase of up to 400,000 shares of our common stock in open market or negotiated transactions to partially offset dilution due to normal grants of restricted shares and options to employees. No shares have been purchased pursuant to this authority. In 2001 and 2000, respectively, we repurchased 50,000 and 13,700 shares of our common stock under similar plans.

**13. Stock Plans**

***Omnibus stock incentive plan***

In April 2001, the Omnibus Stock Incentive Plan as Amended and Restated (the Plan) was approved. The Plan authorizes the issuance of additional shares of our common stock and extends through February 2006. The Plan allows for the granting of:

- nonqualified stock options;
- incentive stock options;
- restricted stock;
- rights to restricted stock;
- incentive compensation units (ICUs);
- stock appreciation rights;
- performance shares; and
- performance units.

The Plan is administered by our Compensation and Human Resources Committee (the Committee), which is made up of members of our Board of Directors. Employees eligible to receive awards under the Plan are managerial, administrative, or other key employees who are in a position to make a material contribution to the continued profitable growth and long-term success of Pentair. The Committee has the authority to select the recipients of awards, determine the type and size of awards, establish certain terms and conditions of award grants, and take certain other actions as permitted under the Plan. The Plan provides that no more than 20 percent of the total shares available for issuance under the Plan may be used to make awards other than stock options and limits the Committee's authority to reprice awards or to cancel and reissue awards at lower prices.

***Incentive stock options***

Under the Plan we may grant stock options to any eligible employee with an exercise price equal to the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the first anniversary of the grant date and expire ten years after the grant date.

***Restricted stock, rights to restricted stock and ICUs***

Under the Plan, eligible employees are awarded restricted shares or rights to restricted shares (awards) of our common stock and ICUs. Restrictions on awards and ICUs generally expire from three to five years

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

after issuance, subject to continuous employment and certain other conditions. Restricted stock awards are recorded at market value on the date of the grant as unearned compensation. Unearned compensation is shown as a reduction of shareholders' equity in our consolidated financial statements and is being amortized to expense over the restriction period. The value of ICUs is based on a matrix, which takes into account growth in operating income and return on invested capital. Annual expense for the value of restricted stock and ICUs was \$5.8 million in 2001, \$0.1 million in 2000 and \$7.3 million in 1999.

**Outside directors nonqualified stock option plan**

Nonqualified stock options are granted to outside directors under the Outside Directors Nonqualified Stock Option Plan (the Directors Plan) with an exercise price equal to 100 percent of the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the first anniversary of the grant date and expire ten years after the grant date. The Directors Plan extends to January 2008.

**Stock options**

The following table summarizes stock option activity under all plans:

Options Outstanding	2001		2000		1999	
	Shares	Exercise price <sup>(1)</sup>	Shares	Exercise price <sup>(1)</sup>	Shares	Exercise price <sup>(1)</sup>
<b>Balance January 1</b>	1,826,356	\$ 35.07	1,522,518	\$ 33.21	1,483,472	\$ 28.41
Granted	840,025	23.36	693,321	34.88	431,972	39.55
Exercised	(302,661)	30.38	(301,664)	24.82	(384,486)	21.44
Canceled	(101,232)	28.35	(87,819)	36.44	(8,440)	34.33
<b>Balance December 31</b>	2,262,488	\$ 31.65	1,826,356	\$ 35.07	1,522,518	\$ 33.21
<b>Options exercisable — December 31</b>	1,231,183	\$ 34.60	788,999	\$ 33.65	710,468	\$ 28.67
<b>Shares available for grant — December 31</b>						
Omnibus Plan	2,446,236		1,108,787		1,970,055	
Directors Plan	373,198		372,798		384,498	
<b>Total</b>	2,819,434		1,481,585		2,354,553	

<sup>(1)</sup> Weighted average

The following table summarizes information concerning stock options outstanding as of the end of 2001 under all plans:

Range of exercise prices	Options outstanding			Options exercisable	
	Shares	Remaining life <sup>(1)</sup> (in years)	Exercise price <sup>(1)</sup>	Shares	Exercise price <sup>(1)</sup>
\$ 21.00 – \$ 25.00	823,250	8.3	\$ 22.62	195,000	\$ 22.56
25.01 – 30.00	9,535	8.7	28.93	3,186	28.94
30.01 – 35.00	432,461	4.5	34.37	397,670	34.51
35.01 – 40.00	950,372	6.4	37.69	590,741	37.99
40.01 – 45.00	21,599	5.7	41.48	19,365	41.63
45.01 – 50.00	25,271	6.3	45.14	25,221	45.14
	2,262,488	6.7	\$ 31.65	1,231,183	\$ 34.60

<sup>(1)</sup> Weighted average

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### **Pentair, Inc. and subsidiaries**

#### **Notes to consolidated financial statements — (continued)**

We apply APB No. 25 and related interpretations in accounting for employee stock options. Generally, no compensation expense is recognized related to stock options. The following table summarizes results as if we had recorded compensation expense for our stock option plans under SFAS No. 123.

*In thousands, except per-share data*

	2001	2000	1999
<b>Net income</b>			
As reported	\$ 32,869	\$ 55,887	\$ 103,309
Pro forma	\$ 28,969	\$ 52,256	\$ 100,519
<b>Earnings per common share — basic</b>			
As reported	\$ 0.67	\$ 1.15	\$ 2.36
Pro forma	\$ 0.59	\$ 1.08	\$ 2.29
<b>Earnings per common share — diluted</b>			
As reported	\$ 0.67	\$ 1.15	\$ 2.33
Pro forma	\$ 0.59	\$ 1.07	\$ 2.27

The weighted-average fair value of options granted in 2001, 2000 and 1999 was \$7.17, \$10.93, and \$12.20 per option, respectively. We estimated the fair values using the Black-Scholes option-pricing model, modified for dividends and using the following assumptions:

<i>Percentages</i>	2001	2000	1999
Risk-free rate	4.0	4.5	6.5
Dividend yield	1.9	2.0	1.7
Expected stock price volatility	42.0	40.0	34.0
Expected life after vesting period (years):			
Omnibus Plan	2.05	2.07	1.91
Directors Plan	2.42	2.24	2.13

The expected life was determined separately for each plan due to varying exercise patterns. The fair value of options is amortized to expense over a three-year option-vesting period in determining the pro forma impact.

#### **14. Business Segments**

*We classify our continuing operations into the following business segments:*

- **Tools** – which manufactures and markets tool products positioned at the mid- to upper-end of the market and targets professionals and upscale hobbyists. Tools segment products include woodworking machinery, portable power tools, metal and stoneworking tools, compressors, generators, and pressure washers.
- **Water** – which manufactures and markets essential products for the transport and treatment of water, wastewater and fluids. Water segment products include water and wastewater pumps, control valves, pumps and pumping stations for thick fluid transfer applications, storage tanks, filtration systems, and pool and spa accessories.
- **Enclosures** – which designs, manufactures, and markets customized and standard metal and composite enclosures that house and protect sensitive controls and components for markets that include data communications, networking, telecommunications, testing equipment, automotive, and general electronics. Products include metallic and composite enclosures, cabinets, cases, subracks, thermal management backplanes and power supplies.
- **Other** – is primarily composed of corporate expenses, our insurance subsidiary, intermediate finance companies, divested operations, discontinued operations, and intercompany eliminations.

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### **Pentair, Inc. and subsidiaries**

#### **Notes to consolidated financial statements — (continued)**

The accounting policies of our operating segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on the operating income of the segment and use a variety of ratios to measure performance.

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

<i>In thousands</i>	2001	2000	1999	2001	2000	1999
	<b>Net sales to external customers</b>			<b>Operating income (loss)</b>		
Tools	\$ 1,038,606	\$ 1,066,616	\$ 875,643	\$ 63,232	\$ 23,751	\$ 100,680
Water	887,518	903,672	582,927	109,792	120,732	73,362
Enclosures	689,820	777,725	657,500	1,857	96,268	46,346
Other	—	—	—	(17,120)	(38,721)	(18,662)
<b>Consolidated</b>	<b>\$ 2,615,944</b>	<b>\$ 2,748,013</b>	<b>\$ 2,116,070</b>	<b>\$ 157,761</b>	<b>\$ 202,030</b>	<b>\$ 201,726</b>
	<b>Identifiable assets <sup>(1)</sup></b>			<b>Depreciation</b>		
Tools	\$ 794,908	\$ 864,051	\$ 936,096	\$ 20,033	\$ 17,406	\$ 13,615
Water	930,759	990,730	953,736	19,472	19,157	15,453
Enclosures	481,311	552,853	546,426	23,008	20,701	26,846
Other <sup>(1)</sup>	165,220	236,391	270,258	161	2,633	167
<b>Consolidated</b>	<b>\$ 2,372,198</b>	<b>\$ 2,644,025</b>	<b>\$ 2,706,516</b>	<b>\$ 62,674</b>	<b>\$ 59,897</b>	<b>\$ 56,081</b>
	<b>Amortization</b>			<b>Capital expenditures</b>		
Tools	\$ 9,274	\$ 9,285	\$ 3,282	\$ 14,290	\$ 23,154	\$ 23,019
Water	18,560	18,074	12,714	16,705	11,966	12,413
Enclosures	8,273	9,097	8,413	22,311	20,254	14,395
Other	5,568	2,675	1,578	362	12,667	3,844
<b>Consolidated</b>	<b>\$ 41,675</b>	<b>\$ 39,131</b>	<b>\$ 25,987</b>	<b>\$ 53,668</b>	<b>\$ 68,041</b>	<b>\$ 53,671</b>

<sup>(1)</sup> Segment assets include all assets except cash and cash equivalents. These assets are included in Other, which also includes the net assets of discontinued operations.

#### **Operating income**

*Tools segment operating income includes:*

- restructuring charge expense of \$5.4 million in 2000 and \$6.3 million in 1999; and
- one-time working capital charges of \$30 million in 2000 to establish additional accounts receivable (\$22 million) and inventory valuation (\$8 million) reserves.

*Enclosures segment operating income includes:*

- restructuring charge expense (income) of \$39.4 million in 2001, \$(1.6) million in 2000 (due to a change in estimate of the 1999 restructuring liability), and \$16.7 million in 1999.

*Other segment operating income includes:*

- restructuring charge expense of \$1.7 million in 2001 and \$21.0 million in 2000.

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**Pentair, Inc. and subsidiaries**

**Notes to consolidated financial statements — (continued)**

The following table presents certain geographic information:

In thousands	2001	2000	1999	2001	2000	1999
	Net sales to external customers			Long-lived assets		
United States	\$ 2,240,276	\$ 2,339,478	\$ 1,754,961	\$ 1,229,400	\$ 1,308,169	\$ 1,324,577
Germany	121,455	129,884	136,131	77,004	84,594	92,389
Canada	64,754	59,976	58,077	719	752	557
All other	189,459	218,675	166,901	110,583	100,571	114,316
<b>Consolidated</b>	<b>\$ 2,615,944</b>	<b>\$ 2,748,013</b>	<b>\$ 2,116,070</b>	<b>\$ 1,417,706</b>	<b>\$ 1,494,086</b>	<b>\$ 1,531,839</b>

Net sales are based on the location in which the sale originated. Long-lived assets include property, plant and equipment, and goodwill, net of related depreciation and amortization.

We sell our products through various distribution channels including home centers and retail chains. In 2001 and 2000, sales to The Home Depot, a major customer of our Tools segment, accounted for approximately 12.8 percent and 10.5 percent of total net sales, respectively. In addition, three customers accounted for about 58 percent of our Tools segment net sales in both 2001 and 2000, and two customers accounted for about 18 percent and 9 percent of our Water segment net sales in 2001 and 2000, respectively. If these customers were lost, it would have a material adverse effect on our business.

**15. Commitments and Contingencies**

**Operating lease commitments**

Net rental expense under operating leases follows:

In thousands	2001	2000	1999
Gross rental expense	\$ 32,343	\$ 35,381	\$ 25,018
Sublease rental income	(239)	—	—
<b>Net rental expense</b>	<b>\$ 32,104</b>	<b>\$ 35,381</b>	<b>\$ 25,018</b>

Future minimum lease commitments under non-cancelable operating leases, principally related to facilities, vehicles, and machinery and equipment is as follows:

In thousands	2002	2003	2004	2005	2006	Thereafter	Total
Minimum lease payments	\$ 25,920	\$ 18,864	\$ 13,492	\$ 8,377	\$ 6,366	\$ 8,068	\$ 81,087
Minimum sublease rentals	(632)	(703)	(703)	(822)	(722)	(2,106)	(5,688)
<b>Net future minimum lease commitments</b>	<b>\$ 25,288</b>	<b>\$ 18,161</b>	<b>\$ 12,789</b>	<b>\$ 7,555</b>	<b>\$ 5,644</b>	<b>\$ 5,962</b>	<b>\$ 75,399</b>

**Environmental**

We have been named as defendants, targets or potentially responsible parties (PRPs) in a small number of environmental cleanups, in which our current or former business units have generally been given *deminimis* status. To date, none of these claims have resulted in cleanup costs, fines, penalties, or damages in an amount material to our financial condition or results of operations. We have disposed of a number of businesses over the past ten years and in certain cases, such as the disposition of the Lake Superior Paper Industries supercalendared paper business and the Cross Pointe Paper Corporation uncoated paper business in 1995 and the disposition of

***Pentair, Inc. and subsidiaries***

***Notes to consolidated financial statements — (continued)***

the Federal Cartridge Company ammunition business in 1997, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from purchasers of both the paper business and the ammunition business. We have established what we believe to be adequate accruals for potential liabilities arising out of retained responsibilities.

In addition, there are pending environmental issues concerning a limited number of sites including sites in Jackson, Tennessee, and Los Angeles, California. We acquired the site in Jackson from Rockwell International Corporation, with whom we have agreed on division of responsibility for remediation and other future costs relating to the site. The site in Los Angeles was acquired in the purchase of the pressure vessel and pool and spa equipment businesses of Esfef Corporation and relates to operations no longer carried out at that site. We have established what we believe to be adequate accruals for remediation costs. We do not believe that projected response costs will result in a material liability.

***Litigation***

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 of operations and financial position, if any, for the disposition of all currently pending matters will not be material.

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**Pentair, Inc. and subsidiaries**  
**Notes to consolidated financial statements — (continued)**

**16. Selected Quarterly Financial Data (Unaudited)**

	2001				
	First	Second	Third	Fourth <sup>(1)</sup>	Year <sup>(1) (4)</sup>
<i>In thousands, except per-share data</i>					
Net sales	\$ 671,383	\$ 702,076	\$ 646,559	\$ 595,926	\$ 2,615,944
Gross profit	163,987	170,782	159,526	153,704	647,999
Operating income (loss)	52,856	60,349	51,184	(6,628)	157,761
Income (loss) from continuing operations	20,563	28,556	24,671	(16,274)	57,516
Loss on disposal of discontinued operations, net of tax	—	—	—	(24,647)	(24,647)
Net income (loss)	20,563	28,556	24,671	(40,921)	32,869
<b>Earnings per common share <sup>(4)</sup></b>					
<b>Basic</b>					
Continuing operations	\$ 0.42	\$ 0.58	\$ 0.50	\$ (0.33)	\$ 1.17
Discontinued operations	—	—	—	(0.50)	(0.50)
Basic earnings per common share	\$ 0.42	\$ 0.58	\$ 0.50	\$ (0.83)	\$ 0.67
<b>Diluted</b>					
Continuing operations	\$ 0.42	\$ 0.58	\$ 0.50	\$ (0.33)	\$ 1.17
Discontinued operations	—	—	—	(0.50)	(0.50)
Diluted earnings per common share	\$ 0.42	\$ 0.58	\$ 0.50	\$ (0.83)	\$ 0.67

	2000				
	First <sup>(2)</sup>	Second <sup>(3)</sup>	Third	Fourth <sup>(2) (3)</sup>	Year <sup>(2) (3) (4)</sup>
<i>In thousands, except per-share data</i>					
Net sales	\$ 647,691	\$ 733,761	\$ 691,784	\$ 674,777	\$ 2,748,013
Gross profit	179,902	192,147	172,859	151,590	696,498
Operating income (loss)	72,752	79,437	61,350	(11,509)	202,030
Income (loss) from continuing operations	33,641	38,673	28,021	(18,467)	81,868
Income (loss) from discontinued operations, net of tax	(975)	(1,440)	(14,382)	(7,962)	(24,759)
Cumulative effect of accounting change, net of tax	(1,222)	—	—	—	(1,222)
Net income (loss)	31,444	37,233	13,639	(26,429)	55,887
<b>Earnings per common share</b>					
<b>Basic</b>					
Continuing operations	\$ 0.69	\$ 0.80	\$ 0.58	\$ (0.38)	\$ 1.68
Discontinued operations	(0.02)	(0.03)	(0.30)	(0.16)	(0.51)
Cumulative effect of accounting change	(0.02)	—	—	—	(0.02)
Basic earnings per common share	\$ 0.65	\$ 0.77	\$ 0.28	\$ (0.54)	\$ 1.15
<b>Diluted</b>					
Continuing operations	\$ 0.69	\$ 0.79	\$ 0.58	\$ (0.38)	\$ 1.68
Discontinued operations	(0.02)	(0.03)	(0.30)	(0.16)	(0.51)
Cumulative effect of accounting change	(0.02)	—	—	—	(0.02)
Diluted earnings per common share	\$ 0.65	\$ 0.76	\$ 0.28	\$ (0.54)	\$ 1.15

(1) Fourth quarter 2001 net income reflects pre-tax restructuring charge of \$41.1 million, or \$0.60 per share.

(2) First quarter 2000 net income reflects pre-tax restructuring charge (income) of \$(2.5) million, or \$(0.03) per share, and fourth quarter net income reflects pre-tax restructuring charge expense of \$27.3, or \$0.36 per share.

(3) Second quarter 2000 net income reflects a one-time pre-tax cost to establish an additional \$5.0 million in accounts receivable reserves.

Fourth quarter 2000 net income reflects one-time pre-tax costs to establish an additional \$25.0 million for accounts receivable (\$17.0 million) and inventory valuation (\$8.0 million) reserves.

(4) Amounts may not total to the annual earnings per share because each quarter and the year are calculated separately based on basic and diluted weighted average common shares outstanding during that period.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

**None.**

**PART III**

**ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT**

Information required under this item with respect to Directors is contained in our Notice of Annual Meeting of Shareholders and Proxy Statement under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required under this item is contained in our Notice of Annual Meeting of Shareholders and Proxy Statement under the captions “Election of Directors” and “Executive Compensation” and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information required under this item is contained in our Notice of Annual Meeting of Shareholders and Proxy Statement under the caption “Security Ownership of Management and Beneficial Ownership” and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**None.**

**PART IV****ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

<b>(a)</b>	<b>List of documents filed as part of this report:</b>
<b>(1)</b>	<b>Financial Statements</b>
	Consolidated Statements of Income for the Years Ended December 31, 2001, 2000, and 1999
	Consolidated Balance Sheets as of December 31, 2001 and December 31, 2000
	Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000, and 1999
	Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2000, and 1999
	Notes to Consolidated Financial Statements
<b>(2)</b>	<b>Financial Statement Schedules</b>
	Schedule II — Valuation and Qualifying Accounts
	All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.
<b>(3)</b>	<b>Exhibits</b>
<b>3.1</b>	Second Restated Articles of Incorporation as amended through June 14, 1999 (Incorporated by reference to Exhibit 3.1 contained in Pentair's Amendment 1 to Registration Statement on Form S-3 dated July 16, 1999).
<b>3.2</b>	Third Amended and Restated By-Laws as amended effective October 26, 2001 (Incorporated by reference to Exhibit 3.2 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2001).
<b>4.1</b>	Rights Agreement as of July 21, 1995 between Norwest Bank N.A. and Pentair, Inc. (Incorporated by reference to Exhibit 4.1 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995).
<b>4.2</b>	Form of Indenture, dated June 1, 1999, between Pentair, Inc. and U.S. Bank National Association, as Trustee Agent (Incorporated by reference to Exhibit 4.2 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 2000).
<b>10.1</b>	Pentair's Supplemental Employee Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.1 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.2</b>	Pentair's 1999 Supplemental Executive Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.2 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.3</b>	Pentair's Restoration Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.3 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.4</b>	Form of Pentair, Inc. Omnibus Stock Incentive Plan as Amended and Restated, dated February 14, 2001 as approved by shareholders on April 25, 2001. (Incorporated by reference to Exhibit 10.30 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001).

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<b>10.5</b>	Fourth Amended and Restated Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 10.12 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1996).
<b>10.6</b>	Amendment effective August 23, 2000 to Pentair's Fourth Amended and Restated Compensation Plan for Non-Employee Directors (Incorporated by reference to Exhibit 10.5 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.7</b>	Amended and Restated Pentair, Inc. Outside Directors Nonqualified Stock Option Plan as amended through February 27, 2002 (Filed herewith).
<b>10.8</b>	Pentair, Inc. Deferred Compensation Plan effective January 1, 1993 (Incorporated by reference to Exhibit 10.21 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1992).
<b>10.9</b>	Amendment effective August 23, 2000 to Pentair's Deferred Compensation Plan effective January 1, 1993 (Incorporated by reference to Exhibit 10.7 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.10</b>	Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.17 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1995).
<b>10.11</b>	Trust Agreement for Pentair, Inc. Non-Qualified Deferred Compensation Plan between Pentair, Inc. and State Street Bank and Trust Company (Incorporated by reference to Exhibit 10.18 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1995).
<b>10.12</b>	Amendment effective August 23, 2000 to Pentair's Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.8 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.13</b>	Executive Officer Performance Plan (Incorporated by reference to Exhibit 10.14 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1997).
<b>10.14</b>	Amendment effective August 23, 2000 to Pentair's Executive Officer Performance Plan (Incorporated by reference to Exhibit 10.9 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
<b>10.15</b>	Proposed form of Pentair, Inc. Executive Officer Performance Plan as amended and restated, dated February 27, 2002 (Submitted for shareholder approval on May 1, 2002) (Filed herewith).
<b>10.16</b>	Pentair's Management Incentive Plan as amended and restated January 1, 2002 (Filed herewith).
<b>10.17</b>	Employee Stock Purchase and Bonus Plan as amended and restated effective January 1, 1992 (Incorporated by reference to Exhibit 10.16 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1991).
<b>10.18</b>	Pentair's Flexible Perquisite Program as amended to January 1, 1989 (Incorporated by reference to Exhibit 10.20 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 1989).
<b>10.19</b>	Form of Key Executive Employment and Severance Agreement effective August 23, 2000 for Randall J. Hogan (Incorporated by reference to Exhibit 10.11 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).

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10.20	Form of Key Executive Employment and Severance Agreement effective August 23, 2000 for Louis Ainsworth, Richard J. Cathcart, Michael V. Schrock, Karen A. Durant, David D. Harrison, Deb S. Knutson, Frank J. Feraco and others (Incorporated by reference to Exhibit 10.13 contained in Pentair's Current Report on Form 8-K filed September 21, 2000).
10.21	Long-Term Credit Agreement, dated as of September 2, 1999, between Pentair and subsidiaries and various financial institutions and Bank of America, N.A., as Administrative Agent (Incorporated by reference to Exhibit 4.1 contained in Pentair's Current Report on Form 8-K filed September 3, 1999).
10.22	First Amendment, dated as of February 16, 2001, to the Long-Term Credit Agreement, dated as of September 2, 1999, between Pentair and subsidiaries and various financial institutions and Bank of America, N.A., as Administrative Agent (Incorporated by reference to Exhibit 10.25 contained in Pentair's Annual Report on Form 10-K for the year ended December 31, 2000).
10.23	Second Amendment, dated as of April 30, 2001, to the Long-Term Credit Agreement dated as of September 2, 1999, between Pentair and various financial institutions and Bank of America, N.A., as Administrative Agent (Filed herewith).
10.24	InterCreditor Agreement, dated as of May 1, 2001, between Bank of America, N.A., as a bank and in its capacity as agent for the financial institutions which are parties to the Bank Credit Agreements (Filed herewith).
10.25	Amended and Restated 364-Day Credit Agreement dated as of August 30, 2001, between Pentair and Various Financial Institutions and Bank One, NA, as Syndication Agent (Incorporated by reference to Exhibit 10.26 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2001).
10.26	Employment Agreement dated October 17, 2001, between Pentair, Inc. and Richard J. Cathcart. (Incorporated by reference to Exhibit 10.31 contained in Pentair's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2001).
10.27	Retirement Agreement and Release dated March 8, 2002, between Pentair, Inc. and Roy T. Rueb (Filed herewith).
10.28	Separation Agreement and Release dated December 4, 2001, between Pentair, Inc. and George Danko (Filed herewith).
21	List of Pentair subsidiaries.
23	Consent of Independent Auditors — Deloitte & Touche LLP
24	Power of Attorney (See signature page)
<b>(b)</b>	<b>Reports on Form 8-K</b> None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 March 19, 2002.

PENTAIR, INC.

By /s/ David D. Harrison

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David D. Harrison  
Executive Vice President and  
Chief Financial Officer

## Power of Attorney

KNOW ALL MEN BY THESE PRESENTS that the undersigned directors of Pentair, Inc., a Minnesota corporation, hereby constitute and appoint Louis L. Ainsworth his/her attorney-in-fact and agent, with full power of substitution, for the purpose of signing on his/her behalf as a director of Pentair, Inc. the Annual Report on Form 10-K, to be filed with the Securities and Exchange Commission within the next sixty days, and to file the same, with all exhibits thereto and other supporting documents, with the Commission, granting unto such attorney-in-fact, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 19, 2002 in the capacities indicated.

<u>Signature</u>	<u>Title</u>	<u>Signature</u>	<u>Title</u>
<u>/s/ Randall J. Hogan</u> Randall J. Hogan	President and Chief Executive Officer; Director	<u>/s/ WilliamH. Hernandez</u> William H. Hernandez	Director
<u>/s/ Winslow H. Buxton</u> Winslow H. Buxton	Chairman of the Board	<u>/s/ Stuart Maitland</u> Stuart Maitland	Director
<u>/s/ William J. Cadogan</u> William J. Cadogan	Director	<u>/s/ Augusto Meozzi</u> Augusto Meozzi	Director
<u>/s/ Barbara B. Grogan</u> Barbara B. Grogan	Director	<u>/s/ William T. Monahan</u> William T. Monahan	Director
<u>/s/ Charles A. Haggerty</u> Charles A. Haggerty	Director	<u>/s/ Karen E. Welke</u> Karen E. Welke	Director

**Schedule II – Valuation and Qualifying Accounts***Pentair, Inc. and subsidiaries*

*In thousands*

	Balance beginning of period	Additions charged to costs and expenses	Deductions — describe	Other changes add (deduct) describe	Balance end of period
<b>Allowances for doubtful accounts</b>					
Year ended December 31, 2001	\$18,636	\$ 1,884	\$ 6,601 <sup>(1)</sup>	\$ 223 <sup>(2)</sup>	\$14,142
Year ended December 31, 2000	\$14,242	\$ 28,055	\$ 23,661 <sup>(1)</sup>	\$ — <sup>(2)</sup>	\$18,636
Year ended December 31, 1999	\$ 9,373	\$ 3,008	\$ 2,397 <sup>(1)</sup>	\$ 4,258 <sup>(2)</sup>	\$14,242

<sup>(1)</sup> Uncollectible accounts written off, net of recoveries.

<sup>(2)</sup> Result of acquisitions

PENTAIR, INC.  
OUTSIDE DIRECTORS NONQUALIFIED STOCK OPTION PLAN  
(as amended through February 27, 2002)

1. Purpose. The purposes of this Plan are to (i) encourage stock ownership by Outside Directors of the Company through the granting of nonqualified stock options to purchase shares of Pentair, Inc. Common Stock, (ii) provide an incentive to the directors to continue to serve the Company and (iii) aid the Company in continuing to attract qualified director candidates.

Options granted under the Plan will not meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The exercise of options is necessarily speculative, and the Company gives no assurance as to the future value of Stock.

2. Definitions.

- a. "Company" means Pentair, Inc. and any first-tier or second-tier subsidiary, including a joint venture partially owned by a subsidiary.
- b. "Board" means the Board of Directors of Pentair, Inc.
- c. "Plan" means the Outside Directors Nonqualified Stock Option Plan.
- d. "Optionee" means an Outside Director who has entered into an option agreement.
- e. "Outside Director" means any member of the Board who is not also an employee of the Company.
- f. "Stock" means Pentair, Inc, Common Stock.

3. Administration. The Plan shall be administered by the Board.

4. Grants to Directors. Each Outside Director shall be given annually a fixed number of options to acquire Stock as provided in Section 5. When an individual who has not previously been an Outside Director first joins the Board, he or she shall receive a one-time grant of options as provided in Section 5. In addition, as of the Plan's effective date, each Outside Director shall receive a one-time option grant. The number of shares to be covered by each option and the terms of such options shall be governed by the provisions of the Plan. Each time an Outside Director is granted an option, he or she shall be notified and given an option agreement for purposes of accepting the grant of options.

5. Grant of Option.

a. Number of Shares. Subject to the provisions of Article 12, the maximum number of shares as to which options may be granted under the Plan shall be 175,000 shares of Stock.

b. Determination of Grant.  
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(i) One-Time Grant. Each individual who is an Outside Director on  
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the Plan's effective date shall receive a one-time grant of  
options to purchase five thousand (5,000) shares of Stock.

(ii) Initial Grants. Each individual who does not receive a grant  
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under Section 5b(i) and who is elected to the Board after the  
Plan's effective date shall receive a one-time grant of  
options to purchase five thousand (5,000) shares of Stock.

(iii) Ongoing Grants. For each calendar year an individual is an  
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Outside Director, he or she shall receive a grant of options  
to purchase five thousand (5,000) shares of Stock.

c. Option Term and Vesting. Each option granted shall be  
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exercisable only within ten (10) years from the date of grant and shall be  
first exercisable for one-third of the number of shares for which options were  
granted following the first anniversary of the date of grant, an additional  
one-third following the second anniversary and the final one-third following  
the third anniversary.

d. Reload Options. Options granted under the Plan with ten (10)  
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year terms which are exercised by a stock swap not later than the fifth  
anniversary of the date of grant are eligible for the grant of a reload option.  
Any such reload option shall be equal to the number of shares surrendered for  
purposes of exercising a qualifying option. The reload options shall be for a  
term equal to the remainder of the original term of the option to which the  
reload option relates and shall have an exercise price not less than the fair  
market value of Stock, determined as of the date the reload options are granted.

The grant of reload options pursuant to the provisions of this Article  
5(c) shall be automatic and each eligible Optionee will be notified and given  
an opportunity to accept an option agreement. Grants of reload options shall be  
subject to the maximum number of shares authorized and available under the Plan  
as described in Article 5(a).

e. Exercise Price. The price to be paid upon the exercise of  
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each option granted under the Plan shall be no less than the fair market value  
of Stock, determined as of the date the option is granted.

f. Fair Market Value. For purposes of this Article 5, the fair  
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market value of Stock shall mean the closing price of a share of Stock on the  
relevant date as reported by the New York Stock Exchange, or as otherwise  
determined using procedures established by the Board.

g. Amendments to Article 5. The provisions of this Article 5 may  
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not be amended more than once every six (6) months, other than to comport with  
changes in the Code, the Employee Retirement Income Security Act, or the rules  
and regulations promulgated under either of them.

6. Effective Date and Period of Plan. The Plan is effective for  
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a period of ten (10) years from January 15, 1998.

7. Period of Option. The term of any option issued pursuant to

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the Plan shall not exceed ten (10) years from the date granted (or in the case of an option granted pursuant to Article 12, ten (10) years from the date the substituted option was granted by the predecessor corporation). An option term may extend beyond the termination of this Plan.

Each option shall become exercisable at such time or times and in the manner provided in the Plan, as may be amended thereafter, providing such amendment does not postpone exercise of then outstanding options.

8. Termination.

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a. Death or Permanent Disability of Optionee. In the event of

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death or permanent disability of an Optionee while a member of the Board, and prior to the time an option has been fully exercised, any option which has not then expired by its terms shall be exercisable only within the six (6) months immediately succeeding the date of death or disability and then only (i) by the person or persons to whom the Optionee's rights under the option shall pass by will or the laws of descent and distribution, and (ii) to the extent the Optionee was entitled to exercise the option at the date of death or disability. Permanent disability shall be as defined in Code section 105.

b. Termination for Reasons Other than Death or Permanent

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Disability. Upon removal of an Optionee from the Board for reasons other than

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death or permanent disability, all options hereunder will terminate within thirty (30) days of the date of the Optionee's removal from the Board unless the Board in its discretion prescribes a later date.

9. Transferability.

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a. Options Not Transferable. Each option granted under this

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Plan shall be nontransferable other than on the death of the Optionee by will or by operation of the laws of descent and distribution of the state in which the Optionee is domiciled on the date of death. Options shall be exercisable during the Optionee's lifetime only by the Optionee.

b. Transfer Restrictions. Each share of Stock acquired by

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exercise of an option under this Plan shall be subject to such restriction on transfer as the Board shall determine is necessary to comply with the Securities Act of 1933, as amended. Stock certificates evidencing such shares shall bear an appropriate restrictive legend. No Stock may be sold, transferred, hypothecated or otherwise disposed of in violation of such restriction.

10. Payment.

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a. General. Full payment for all Stock to be acquired pursuant

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to the exercise of an option shall be made at the time such option, or any part thereof, is exercised, except that the Board may permit deferred payment if at least the minimum interest rate required under Code section 483 is charged. Payment shall be made in cash or in one of the alternative forms specified below.

b. Payment with Options. In lieu of paying cash for the exercise

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price, the Optionee

may pay such exercise price by transferring to the Company a sufficient number of outstanding options. The cash derived from the transfer of options for payment of such exercise price will be equal to the appreciated value of the options, measured by the excess of the current market value of the Stock over the exercise price of the option.

c. Payment in Stock. Shares of Stock also may be exchanged in  
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payment for the exercise price due upon exercise of an option. For this purpose, the value of the Stock will be the fair market value as of the date of exercise. Any such transfer of Stock must be in whole shares; the Optionee may not transfer fractional shares of Stock.

11. Form of Option. The form of option granted pursuant to the  
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Plan and the contents of the option agreement shall be subject to the provisions of the Plan.

12. Anti-dilution. If the number of outstanding shares of Stock  
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shall be changed in number or class by reason of split-ups, combinations, mergers, consolidations recapitalizations or the declaration of a Stock dividend, the number and class of shares as to which options may thereafter be granted, and the number and class of shares then subject to outstanding options, shall be adjusted proportionately to the nearest whole share. In addition, the price per share payable upon exercise of each outstanding option also shall be adjusted proportionately to reflect any such adjustment in the number of shares then subject to outstanding options. Any adjustment made pursuant to this Article 12 shall be determined in the sole discretion of the Board, provided, however, that no adjustment shall be made in the number of shares subject to outstanding options for Stock dividends in any calendar year which, in the aggregate, do not exceed three percent (3%) of the total number of shares of such Stock outstanding on the record date used to determine the stockholders entitled to receive the latest such dividend in such calendar year.

13. Modification and Termination. The Board may, at any time,  
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terminate, modify or suspend the Plan.

14. Interpretation of Plan. Full power and authority to  
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construe, interpret and administer the Plan and all option contracts issued thereunder shall be vested in the Board. Decisions of the Board shall be final, conclusive and binding upon all parties, including the Company, the stockholders and Optionees.

15. Expenses of Administration. The expenses of administering  
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this Plan shall be borne by the Company.

16. Removal from Board. The fact that an Outside Director has  
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been granted an option under this Plan shall not affect or qualify the right of the Board or the shareholders of the Company to remove such individual from the Board consistent with the provisions of the Company's Articles of Incorporation or By-Laws, or under applicable provisions of Minnesota law.

17. Change in Control. Upon the occurrence of a Change in Control  
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of the Company, as that term is defined in the Key Executive Employment and Severance Agreement ("KEESA"), as approved by the Board effective August 23, 2000, all outstanding options granted to an individual who is then an Outside Director shall, to the extent not then exercisable, become

fully and immediately exercisable without regard to the time at which such options would otherwise become first exercisable under Section 5b of the Plan. Regardless of the manner in which payment for such options is made, however, no reload options shall be granted upon the exercise of options which have become exercisable by application of this Section 17. In the case of a conflict between this Section 17 and any other Plan provision, this Section 17 shall control.

IN WITNESS WHEREOF, this Plan, as amended and restated effective February 27, 2002, has been executed this 14th day of March, 2002.

PENTAIR, INC.

By \_\_\_\_\_  
Its: Chief Executive Officer

By \_\_\_\_\_  
Its: Secretary

PENTAIR, INC.  
 EXECUTIVE OFFICER PERFORMANCE PLAN,  
 AS AMENDED AND RESTATED

PURPOSE

- - - - -

A primary objective of Pentair, Inc. ("Pentair" or the "Company") is to be a top-performing company by consistently achieving profit performance that is higher than the performance of comparable companies. The Company has also identified growth as a key strategy for the long-term success of the business. The return on our investments, whether to support internal growth and improvements or make acquisitions, is also a key determinant of our business success and the return to our shareholders.

The Company expects to compensate executive officers for their performance against key financial measurements in accordance with the terms of the EOPP.

ELIGIBILITY AND PARTICIPATION

- - - - -

Key employees in executive positions will be considered for participation. Participation is determined by the magnitude and scope of the employee's position and is subject to Pentair Inc. Compensation Committee nomination. An employee who participates in this program is not eligible for the Pentair Management Incentive Plan.

QUALIFYING POSITIONS AND BOC PERCENTAGES

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Bonus Opportunity Category ("BOC") percentages are assigned to each qualifying position by the Compensation Committee based on competitive market data. Annual awards under the EOPP are determined by multiplying the participant's base salary by his or her Bonus Opportunity Category percentage (a percentage of base salary based on position) and by the Corporate Performance Factor.

The current designated Qualifying Position and BOC percentage is:

Qualifying Position -----	BOC Percentage -----
Chairman, CEO	100%

The BOC percentage for other positions that may qualify for future participation at the discretion of the Compensation Committee are:

President, Chief Operating Officer	80.0%
Executive VP's and Operating Officers	58.5%
Other Senior Officers	52.0%

INCENTIVE AWARDS

- - - - -

Incentive Awards under the EOPP are determined according to the following formula:

Incentive Award = Base Salary x BOC% x CPF

Base Salary = Actual base salary earned during the year

BOC% = Bonus Opportunity Category Percentage

CPF = Corporate Performance Factor

#### CASH PAY-OUT LIMIT

The cash incentive award for the fiscal year will be limited to one times the participant's annual base salary. The portion in excess of one times the participant's annual base salary will be awarded as shares of restricted stock. The restricted stock will be subject to the terms and provisions of the Omnibus Stock Incentive Plan.

#### MAXIMUM AWARD

No participant will receive an Incentive Award (cash plus stock) greater than \$3.5 million or 200% of annual base salary.

#### TIMING OF PAY-OUT

Incentive Awards for a fiscal year shall be paid as soon as administratively possible after the annual audit is complete and the Compensation Committee has reviewed and approved the payment.

#### MINIMUM OPERATING INCOME REQUIREMENT

If Pentair's operating income (after corporate charges) is zero or less, there will be no bonus payouts.

#### ESTABLISHMENT OF COMPANY GOALS AND FACTORS

-----

EOPP performance goals are a reflection of the overall financial goals for Pentair and are based on the comparative market data and the historical and expected performance of the Company. These performance goals are used in calculating the Corporate Performance Factor. The performance goals that make up the Corporate Performance Factor are Pentair Value Added ("PVA") and Free Cash Flow.

The use of these two factors reinforces the importance of balancing economically profitable growth and cash generation. The achievement of these goals will add to shareholder value and move Pentair toward its top performance objectives.

Specific EOPP performance targets with respect to these goals are established by the Compensation Committee of the Board of Directors prior to or early in each fiscal year. The EOPP targets established for a fiscal year are measured against Pentair's performance for that fiscal year. The performance goals

have been designed to be used over multiple fiscal years, although the specific targets will be determined annually by the Compensation Committee.

CORPORATE PERFORMANCE FACTOR

The Corporate Performance Factor is determined by multiplying factors for PVA and Free Cash Flow. PVA is calculated as a target percentage of Net Operating Profit After Taxes ("NOPAT") less a surcharge against average invested capital. Free Cash Flow is equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. The achievement of (a) Free Cash Flow equal to the target percentage of NOPAT and (b) PVA generated that equates to the target percentage total business return, results in a Corporate Performance Factor of 1.00. The maximum Corporate Performance Factor is 4.50 and the minimum Corporate Performance Factor is 0.10; however, there is no bonus if the Company has an operating loss. If the Company's performance results in a negative PVA, the maximum performance factor is capped at 2.00.

The following grid shows the range of performance factors for each measure that when multiplied together give the total Corporate Performance Factor.

Performance Multiplier Grid

Performance Factor Grid

	Minimum	On Goal	Maximum
PVA Factor	.20	1.00	3.00
Free Cash Flow Factor	.50	1.00	1.50
CPF (PVA x Cash Flow)	.10	1.00	4.50

\* Performance falling between stated factors will be interpolated.

The Compensation Committee may further refine the calculation of PVA and Free Cash Flow in future years to measure the targets it sets in each year. The achievement of the established targets is measured by applying generally accepted accounting principles used by the Company in preparing its financial statements.

CONSIDERATION FOR ACQUISITIONS/DIVESTITURES

In the case of acquisitions and divestitures generally, no special adjustment will be necessary because they flow into the calculations and impact the results and payouts.

In the event of a significant acquisition or divestiture, however, the Committee has discretion to use pro forma results or to exclude the effect of a transaction, if the Committee determines it is necessary to achieve consistency in measuring year-over-year results or it is otherwise advisable in the interests of fairness or to achieve the purposes of the Plan.

## APPROVAL OF FINAL AWARDS

-----

The Compensation Committee will review and approve all goals and final Incentive Awards granted under this plan. The Compensation Committee has the flexibility to reduce or eliminate the award based on its business judgment. The Compensation Committee does not have the authority or discretion to award more than the incentive award generated by the formula, subject to the stated limits.

## General Provisions

- 
1. Nothing contained herein shall be construed to limit or affect in any manner or degree the normal and usual powers of management, including the right to terminate the employment of any participant or remove him/her from participating in the EOPP at any time.
  2. The judgment of the Compensation Committee in administering the EOPP will be final, conclusive and binding upon all officers and employees of Pentair and its subsidiaries, whether or not selected as participants hereunder, and their heirs, executors, personal representatives and assigns.
  3. The Compensation Committee has the authority and duties to:
    - a. Determine the rights and benefits under the EOPP of participants and other persons;
    - b. Interpret the terms of the EOPP and apply them to different situations;
    - c. Approve, process and direct the payment of EOPP benefits, and
    - d. Adopt rules, procedures and forms which are appropriate for the smooth and proper operation of the EOPP.
  4. In the event of death, a participant's designated beneficiary will be entitled to the participant's Plan benefits. If a participant does not designate a beneficiary, the participant's beneficiary(ies) will be determined according to the participant's will. If there is no will, the beneficiary(ies) shall be determined by the laws of descent and distribution of the state in which the participant is a resident on the date of death.
  5. A participant does not have the right to assign, transfer, encumber or dispose of any award under the Plan until it is distributed to the participant. Also, no award is liable to the claims of any creditor of the participant until it is distributed to him or her.
  6. The Compensation Committee subject to approval by the Pentair, Inc. Board of Directors, has the right to terminate the Plan at any time.

7. Calculations may exclude or otherwise take into account the impact of changes in accounting methods used by Pentair or required by the Financial Accounting Standards Board if the Committee determines it is necessary to achieve consistency in measuring year-over-year results or it is otherwise advisable in the interests of fairness or to achieve the purposes of the Plan

#### Change in Control

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For purposes of the EOPP, a "Change in Control" is a change in control of Pentair as defined in the KEESA, and the "KEESA" is the Key Executive Employment and Severance Agreement, as approved by the Pentair Board of Directors effective August 23, 2000.

If an EOPP participant is employed by Pentair on the date of a Change in Control, or if an EOPP participant who has entered into a KEESA terminates employment before a Change in Control but is entitled to benefits under Section 2(b) of the KEESA, then the following provisions shall apply.

1. If the Change in Control occurs prior to the end of the fiscal year to which an Incentive Award relates, the Incentive Award for such fiscal year shall be (i) determined by using the participant's annual base salary rate as in effect immediately before the Change in Control and by assuming the EOPP Goals for such fiscal year have been attained, and (ii) paid to the participant in cash within ten (10) days of the Change in Control.
2. If the Change in Control occurs at such time as the participant has not received payment of an Incentive Award for a prior fiscal year, then the cash portion of such Incentive Award allocated to the participant, based upon the attainment of the EOPP Goals for such fiscal year, shall be paid to the participant within ten (10) days of the Change in Control.
3. The requirement that the participant remain employed through the end of the incentive period to which the Incentive Award relates shall not apply.
4. The requirement that an Incentive Award be paid after completion of an annual audit and completion of a review and approval by the Compensation Committee shall not apply.
5. The Minimum Operating Income Requirement provision of the EOPP shall Not apply to the Incentive Award described in paragraph 1 immediately preceding.
6. The Compensation Committee shall not have the discretion to reduce the amount of, or eliminate, an Incentive Award.
7. The Maximum Award provision of the EOPP shall remain in effect.
8. If an Incentive Award for a fiscal year referenced in paragraph 2 immediately preceding exceeds one times the participant's annual base salary for such year, then immediately upon a Change in Control such excess shall be paid to the participant in restricted shares and such

shares shall be subject to the terms and provisions of the Pentair Omnibus Stock Incentive Plan upon a Change in Control.

9. To the extent any provision of the EOPP may be in conflict with this Change in Control provision, the provisions of this section shall apply. In the case of any conflict between the terms and provisions of this Plan and the terms and provisions of the KEESA entered into by an EOPP participant, the terms of such KEESA shall control to the extent more beneficial to such participant, and the obligations of Pentair under such KEESA shall be in addition to any of its obligations under the EOPP.

PENTAIR, INC.  
 MANAGEMENT INCENTIVE PLAN,  
 AS AMENDED AND RESTATED JANUARY 1, 2002

Purpose  
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A primary objective of Pentair, Inc. ("Pentair" or the "Company") is to be a top-performing company by consistently achieving profit performance that is higher than the performance of comparable companies. The Company has also identified growth as a key strategy for the long-term success of the business. The return on our investments, whether to support internal growth and improvements or make acquisitions, is also a key determinant of our business success and the return to our shareholders. The Company expects to compensate management for their performance against key financial measurements in accordance with the terms of the Management Incentive Plan (MIP).

Eligibility and Participation  
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Key employees in executive, management or professional positions will be considered for participation. Eligibility is determined by the magnitude and scope of the employee's position within the subsidiary organization including its direct impact on profit and other greater related goals.

Qualifying Positions and BOC Percentages  
 -----

Bonus Opportunity Category ("BOC") percentages are assigned to each position by the Pentair, Inc. Compensation Committee based on competitive market data. Individuals who move between grades during the year will have Incentive Award calculations completed for each BOC percentage prorated for the number of months at each BOC percentage. Annual awards under the MIP are determined by multiplying the participant's base salary by his or her Bonus Opportunity Category percentage (a percentage of base salary based on position), by his or her Individual Performance Factor (IPF), and by the Corporate (CPF) or Subsidiary Performance Factor (SPF).

The current designated BOC percentages are:

Qualifying Positions -----	BOC Percentage -----
Grade 33 and up	35%
Grade 30 to 32	25%
Grade 28 to 29	22%
Grade 27	20%
Grade 26	17%
Grade 25	15%
Grade 24	12%
Grade 23	10%

Incentive Awards  
 -----

Incentive Awards under the MIP are determined according to the following formula:

$$\text{Incentive Award} = \text{Base Salary} \times \text{BOC\%} \times \text{SPF or CPF} \times \text{IPF}$$

Base Salary = Actual base salary earned during the year

BOC% = Bonus Opportunity Category Percentage

CPF = Corporate Performance Factor

SPF = Subsidiary Performance Factor

IPF = Individual Performance Factor

Cash Pay-out Limit

The cash incentive award for the fiscal year will be limited to one times the participant's annual base salary. The portion in excess of one times the participant's annual base salary will be awarded as shares of restricted stock. The restricted stock will be subject to the terms and provisions of the Omnibus Stock Incentive Plan.

Timing of Pay-out

Incentive Awards for a fiscal year shall be paid as soon as administratively possible after the annual audit is complete and the Compensation Committee has reviewed and approved the payment.

Minimum Operating Income Requirement

If operating income (after corporate charges) for the subsidiary or corporation is zero or less, there will be no bonus payouts.

Establishment of Company Goals and Factors

MIP performance goals are a reflection of the overall financial goals for Pentair and are based on the comparative market data and the historical and expected performance of the Company. These performance goals are used in calculating the Corporate or Subsidiary Performance Factor. The performance goals that make up the Corporate or Subsidiary Performance Factor are Pentair Value Added ("PVA") and Free Cash Flow. The use of these two factors reinforces the importance of balancing economically profitable growth and cash generation. The achievement of these goals will add to shareholder value and move Pentair toward its top performance objectives.

Specific MIP performance targets with respect to these goals are established by the Compensation Committee of the Board of Directors prior to or early in each fiscal year. The MIP targets established for a fiscal year are measured against Pentair's performance for that fiscal year. The performance goals have been designed to be used over multiple fiscal years, although the specific targets will be determined annually by the Compensation Committee.

Corporate and Subsidiary Performance Factor

The Corporate and Subsidiary Performance Factor is determined by multiplying factors for PVA and Free Cash Flow. PVA is calculated as a target percentage of Net Operating Profit After Taxes ("NOPAT") less a surcharge against average invested capital. Free Cash Flow is equal to net cash provided by operating activities, excluding net tax-affected interest expense, less capital expenditures. The achievement of (a) Free Cash Flow equal to the target percentage of NOPAT and (b) PVA generated that equates to the target percentage total business return, results in a Performance Factor of 1.00. The maximum Performance Factor is 4.50 and the minimum Performance Factor is 0.10; however, there is no bonus if the Company has an operating loss. If the Company's performance results in a negative PVA, the maximum performance factor is capped at 2.00.

The following grid shows the range of performance factors for each measure that when multiplied together give the total Performance Factor.

Performance Multiplier Grid

Performance Factor Grid

	Minimum	On Goal	Maximum
PVA Factor	.20	1.00	3.00
Free Cash Flow Factor	.50	1.00	1.50
CPF (PVA x Cash Flow)	.10	1.00	4.50

\*Performance falling between stated factors will be interpolated.

The Compensation Committee may further refine the calculation of PVA and Free Cash Flow in future years to measure the targets it sets in each year. The achievement of the established targets is measured by applying generally accepted accounting principles used by the Company in preparing its financial statements.

#### Individual Performance Factor

- - - - -

Individual performance must be measured against pre-established and assigned a numerical value under the Pentair Performance Management System. Individual Performance Factors assigned to these numerical values are:

Individual Performance Numerical Value -----	Individual Performance Factor -----
0 - 1.6 - "unacceptable"	0% (No Award)
1.7 - 2.6 - "meets some expectations"	0% (No Award)
2.7 - 3.6 - "meets expectations"	80% - 105%
3.7 - 4.6 - "exceeds expectations"	106% - 125%
4.7 and above - "far exceeds expectations"	126% - 150%

#### Determination of Awards

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The Compensation Committee will review and approve all incentive Awards and will retain the right to change awards that are not in keeping with the original objectives of the plan.

#### Special Awards

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Special awards may be made under the MIP to any officer or employee of a subsidiary of Pentair (either a participant or a non-participant in the MIP) who has made an extraordinary and very significant contribution to the welfare, reputation and earnings of Pentair and its subsidiaries.

Recommendations for special awards must be submitted in writing by the President and COO or Senior Executive Officer of each business segment to the Corporate Vice-President of Human Resources and approved by the CEO and Compensation Committee.

#### Consideration for Acquisitions/Divestitures

- - - - -

In the case of acquisitions and divestitures generally, no special adjustment will be necessary because they flow into the calculations and impact the results and payouts.

In the event of a significant acquisition or divestiture, however, the Committee has discretion to use pro forma results or to exclude the effect of a transaction, if the Committee determines it is necessary to achieve consistency in measuring year-over-year results or it is otherwise advisable in the interests of fairness or to achieve the purposes of the Plan.

#### General Provisions

- - - - -

1. Nothing contained herein shall be construed to limit or affect in any manner or degree the normal and usual powers of management, including the right to terminate the employment of any participant or remove him/her from participating in the MIP at any time.
2. The judgment of the Compensation Committee in administering the MIP will be final, conclusive and binding upon all officers and employees of Pentair and its subsidiaries, whether or not selected as participants hereunder, and their heirs, executors, personal representatives and assigns.
3. The Compensation Committee has the authority and duties to:
  - a. Determine the rights and benefits under the MIP of participants and other persons;
  - b. Interpret the terms of the MIP and apply them to different situations;

- c. Approve, process and direct the payment of MIP benefits, and
  - d. Adopt rules, procedures and forms which are appropriate for the smooth and proper operation of the MIP.
4. In the event of death, a participant's designated beneficiary will be entitled to the participant's Plan benefits. If a participant does not designate a beneficiary, the participant's beneficiary(ies) will be determined according to the participant's will. If there is no will, the beneficiary(ies) shall be determined by the laws of descent and distribution of the state in which the participant is a resident on the date of death.
  5. A participant does not have the right to assign, transfer, encumber or dispose of any award under the Plan until it is distributed to the participant. Also, no award is liable to the claims of any creditor of the participant until it is distributed to him or her.
  6. The Compensation Committee subject to approval by the Pentair, Inc. Board of Directors, has the right to terminate the Plan at any time.
  7. Calculations may exclude or otherwise take into account the impact of changes in accounting methods used by Pentair or required by the Financial Accounting Standards Board if the Committee determines it is necessary to achieve consistency in measuring year-over-year results or it is otherwise advisable in the interests of fairness or to achieve the purposes of the Plan

Change in Control

- - - - -  
 For purposes of the MIP, a "Change in Control" is a change in control of Pentair as defined in the KEESA, and the "KEESA" is the Key Executive Employment and Severance Agreement, as approved by the Pentair Board of Directors effective August 23, 2000.

If an MIP participant is employed by Pentair on the date of a Change in Control, or if an MIP participant who has entered into a KEESA terminates employment before a Change in Control but is entitled to benefits under Section 2(b) of the KEESA, then the following provisions shall apply.

1. If the Change in Control occurs prior to the end of the fiscal year to which an Incentive Award relates, the Incentive Award for such fiscal year shall be (i) determined by using the participant's annual base salary rate as in effect immediately before the Change in Control and by assuming the MIP Goals for such fiscal year have been attained, and (ii) paid to the participant in cash within ten (10) days of the Change in Control.
2. If the Change in Control occurs at such time as the participant has not received payment of an Incentive Award for a prior fiscal year, then the cash portion of such Incentive Award allocated to the participant, based upon the attainment of the MIP Goals for such fiscal year, shall be paid to the participant within ten (10) days of the Change in Control.
3. The requirement that the participant remain employed through the end of the incentive period to which the Incentive Award relates shall not apply.
4. The requirement that an Incentive Award be paid after completion of an annual audit and completion of a review and approval by the Compensation Committee shall not apply.
5. The Minimum Operating Income Requirement provision of the MIP shall not apply to the Incentive Award described in paragraph 1 immediately preceding.
6. The Maximum Award provision of the MIP shall remain in effect.

7. If an Incentive Award for a fiscal year referenced in paragraph 2 immediately preceding exceeds one times the participant's annual base salary for such year, then immediately upon a Change in Control such excess shall be paid to the participant in restricted shares and such shares shall be subject to the terms and provisions of the Pentair Omnibus Stock Incentive Plan upon a Change in Control.
  
8. To the extent any provision of the MIP may be in conflict with this Change in Control provision, the provisions of this section shall apply. In the case of any conflict between the terms and provisions of this Plan and the terms and provisions of the KEESA entered into by an MIP participant, the terms of such KEESA shall control to the extent more beneficial to such participant, and the obligations of Pentair under such KEESA shall be in addition to any of its obligations under the MIP.

SECOND AMENDMENT

THIS SECOND AMENDMENT, dated as of April 30, 2001 (this "Amendment"), amends the Long Term Credit Agreement, dated as of September 2, 1999 (as previously amended, the "Credit Agreement"), among the Borrower, various subsidiaries thereof, various financial institutions and BANK OF AMERICA, N.A., as Administrative Agent. Terms defined in the Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used herein as defined therein.

WHEREAS, the Company, the Lenders and the Administrative Agent have entered into the Credit Agreement; and

WHEREAS, the parties hereto desire to amend the Credit Agreement in certain respects as more fully set forth below;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Credit Agreement shall be amended as set forth below:

(a) Amendment to Section 13.13. Section 13.13 is amended in its entirety to read as follows:

13.13. Subsidiary Guaranty. The Company will take, and will cause its Subsidiaries to take, such actions as are reasonably necessary or as the Administrative Agent may reasonably request (including delivery of authorization documents and customary opinions of counsel) so that as of May 1, 2001, and at all times thereafter (subject to the proviso below), all of the Company's obligations hereunder are guaranteed by Subsidiaries (other than Foreign Subsidiaries) that, in the aggregate together with the Company, own 90% or more of the consolidated assets of the Company and its Subsidiaries (excluding Foreign Subsidiaries) and earned 90% or more of the consolidated revenue of the Company and its Subsidiaries (excluding Foreign Subsidiaries) during the most recent period of four consecutive fiscal quarters (excluding the revenues of any Subsidiary or business unit which has been divested or liquidated on or prior to any date of determination), in each case pursuant to the Subsidiary Guaranty; provided that the provisions of this Section 13.13 shall cease to be effective (and thereafter no Subsidiary shall be obligated to guarantee the Company's obligations hereunder) on the first date after May 1, 2001 on which the Company's long term senior unsecured non-credit-enhanced public Debt is rated BBB or better by S&P and Baa2 or better by Moody's.

(b) Amendment to Section 14.01. Subsection (1) of Section 14.01 is amended in its entirety to read as follows:

(i) at any time during which the Subsidiary Guaranty is required to be in effect pursuant to Section 13.13, the Subsidiary Guaranty

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shall cease to be in full force and effect with respect to any Subsidiary Guarantor (other than as a result of such Subsidiary Guarantor ceasing to be a Subsidiary pursuant to a transaction permitted hereunder), any Subsidiary Guarantor shall fail (subject to any applicable grace period) to comply with or to perform any applicable provision of the Subsidiary Guaranty, or any Subsidiary Guarantor (or any Person by, through or on behalf of such Subsidiary Guarantor) shall contest in any manner the validity, binding nature or enforceability of the Subsidiary Guaranty with respect to such Subsidiary Guarantor.

SECTION 2 Representations and Warranties. The Company represents and

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warrants to the Lenders that (a) each of the representations and warranties of the Company set forth in the Credit Agreement is true and correct as of the date of the execution and delivery of this Amendment by the Company, with the same effect as if made on such date, (b) the execution and delivery by the Company of this Amendment and the performance by the Company of its obligations under the Credit Agreement, as amended hereby (as so amended, the "Amended

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Credit Agreement"), (i) are within the powers of the Company, (ii) have been

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duly authorized by all necessary action on the part of the Company, (iii) have received all necessary governmental approval and (iv) do not and will not contravene or conflict with (A) any provision of law or the certificate of incorporation or by-laws or other organizational documents of the Company or (B) any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or any of its Subsidiaries and (c) the Amended Credit Agreement is a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

SECTION 3 Effectiveness. This Amendment shall become effective on the

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date on which the Administrative Agent has received counterparts (or facsimiles thereof) of signature pages to this Amendment executed by the Company, the Required Lenders and the Administrative Agent.

SECTION 4 Miscellaneous.

(a) Continuing Effectiveness, etc. As herein amended, the Credit

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Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effective date hereof, all references in the Credit Agreement and the Notes to "Credit Agreement", "Agreement" or similar terms shall refer to the Amended Credit Agreement.

(b) Counterparts. This Amendment may be executed in any number of

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counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

(c) Expenses. The Company agrees to pay the reasonable costs and

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expenses of the Administrative Agent (including attorney's fees and expenses) in connection with the preparation, execution and delivery of this Amendment.

(d) Governing Law. This Amendment shall be a contract made under and  
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governed by the internal laws of the State of Illinois applicable to contracts  
made and to be performed entirely within such State.

(e) Successors and Assigns. This Amendment shall be binding upon the  
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Company, the Lenders and the Administrative Agent and their respective  
successors and assigns, and shall inure to the benefit of the Company, the  
Lenders and the Administrative Agent and the respective successors and assigns  
of the Lenders and the Administrative Agent.

Delivered at Chicago, Illinois as of the day and year first above  
written.

PENTAIR, INC.

By \_\_\_\_\_  
Title \_\_\_\_\_

BANK OF AMERICA, N.A.,  
individually and as Administrative Agent

By \_\_\_\_\_  
Title \_\_\_\_\_

BANK ONE, NA (Main Office Chicago) (formerly  
known as The First National Bank of Chicago)

By \_\_\_\_\_  
Title \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION

By \_\_\_\_\_  
Title \_\_\_\_\_

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

By \_\_\_\_\_  
Title \_\_\_\_\_

FIRST UNION NATIONAL BANK

By \_\_\_\_\_  
Title \_\_\_\_\_

THE INDUSTRIAL BANK OF JAPAN, LIMITED

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

THE BANK OF TOKYO - MITSUBISHI, LTD.,  
CHICAGO BRANCH

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

BANK HAPOALIM B.M.

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

CREDIT AGRICOLE INDOSUEZ

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

CREDIT LYONNAIS CHICAGO BRANCH

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

SUNTRUST BANK (formerly known as  
SunTrust Bank, Central Florida, N.A.)

By \_\_\_\_\_  
Title \_\_\_\_\_

WELLS FARGO BANK, NATIONAL  
ASSOCIATION

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

BANCA DI ROMA - CHICAGO BRANCH

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

BANCA NAZIONALE DEL LAVORO S.p.A.  
NEW YORK BRANCH

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

BANK OF MONTREAL

By \_\_\_\_\_  
Title \_\_\_\_\_

THE BANK OF NEW YORK

By \_\_\_\_\_  
Title \_\_\_\_\_

BNP PARIBAS (formerly known as Banque  
Nationale De Paris)

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

FIRSTAR BANK, N.A. (formerly known as Firststar Bank of Minnesota, N.A.)

By \_\_\_\_\_  
Title \_\_\_\_\_

FLEET NATIONAL BANK

By \_\_\_\_\_  
Title \_\_\_\_\_

MELLON BANK, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

SANWA BANK LIMITED

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

COMMERZBANK AKTIENGESELLSCHAFT, NEW YORK AND GRAND CAYMAN BRANCHES

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

MICHIGAN NATIONAL BANK

By \_\_\_\_\_  
Title \_\_\_\_\_

NATIONAL CITY BANK

By \_\_\_\_\_  
Title \_\_\_\_\_

BASNCO ESPIRITO SANTO, S.A. NEW YORK BRANCH

By \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Title \_\_\_\_\_

S--6

Second Amendment to  
Long Term Credit Agreement

INTERCREDITOR AGREEMENT

Dated as of May 1, 2001

among

BANK OF AMERICA, N.A.,  
as Agent for Various Financial Institutions,

and

CERTAIN OTHER CREDITORS OF PENTAIR, INC.

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INTERCREDITOR AGREEMENT

This INTERCREDITOR AGREEMENT dated as of May 1, 2001 is among BANK OF AMERICA, N.A., as a bank and in its capacity as agent for the financial institutions which are parties to the Bank Credit Agreements (as defined below)(the "Agent" and, together with the other financial institutions which are

parties to the Bank Credit Agreements from time to time, the "Lenders"), and the Other Creditors (as defined below) which from time to time are parties hereto.

RECITALS

A. Pursuant to the 364-Day Credit Agreement dated as of September 2, 1999 (as amended, restated or otherwise modified from time to time, the "364-Day Credit Agreement"), among Bank of America, N.A., as administrative agent,

Pentair, Inc. (the "Company") and certain of the Lenders, certain of the Lenders have made available to the Company credit facilities in an aggregate principal amount up to \$335,000,000 (all amounts outstanding in respect of such credit facilities being collectively referred to as the "364-Day Loans").

B. Pursuant to the Long Term Credit Agreement dated as of September 2, 1999 (as amended, restated or otherwise modified from time to time, the "Long Term Credit Agreement" and, together with the 364-Day Credit Agreement, the

"Bank Credit Agreements") among Bank of America, N.A., as administrative agent, the Company, Pentair UK Limited, Pentair Canada Inc., EuroPentair GmbH and certain of the Lenders, certain of the Lenders have made available to the Company credit facilities in an aggregate principal amount up to \$375,000,000 (all amounts outstanding in respect of such credit facilities being collectively referred to as the "Long Term Loans" and, collectively with the 364-Day Loans, the "Loans").

C. Pursuant to the agreements set forth on Schedule I hereto, and pursuant to other agreements that the Company may from time to time hereafter enter into as described in Section 4.5 below (each of such existing and future

agreements, as amended, restated or otherwise modified from time to time, an "Other Creditor Agreement"), with or in favor of one or more creditors of the Company (each, in its capacity as a party to or beneficiary of any Other Creditor Agreement, an "Other Creditor"), the Company has and may from time to time incur obligations to the Other Creditors (the "Other Creditor Obligations").

D. The Company has agreed to cause various subsidiaries of the Company (such Subsidiaries, as changed from time to time in accordance with the Bank Credit Agreements, collectively the "Subsidiary Guarantors") to guarantee

payment of the Loans and other obligations of the Company under the Bank Credit Agreements pursuant to a Subsidiary Guaranty dated as of May 1, 2001 (as amended, restated or otherwise modified from time to time, the "Lender Guaranty").

E. The Subsidiary Guarantors have entered into the other guaranties set forth on Schedule II hereto and may from time to time hereafter enter into other guaranties (each of such

existing and future guaranties, as amended, restated or otherwise modified from time to time, an "Other Creditor Guaranty"), pursuant to which the Subsidiary

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Guarantors have guaranteed or will guaranty the payment of the principal of, premium, if any, and interest on the applicable Other Creditor Obligations and the payment and performance of all other obligations of the Company under the applicable Other Creditor Agreements.

F. The Lender Guaranty and the Other Creditor Guaranties, together with any other guaranty made by any subsidiary of the Company after the date of this Agreement of the obligations under either Bank Credit Agreement or any Other Creditor Agreement, are each hereinafter referred to as a "Subsidiary Guaranty"

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and collectively as the "Subsidiary Guaranties."  
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G. The Lenders and the Other Creditors have reached certain agreements with respect to the interests of each under the Subsidiary Guaranties and have agreed to set forth such agreements in this Intercreditor Agreement.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions.  
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For the purposes of this Agreement, in addition to the definitions set forth above, the following terms shall have the respective meanings set forth below (such meanings to be applicable to both the singular and plural forms of such terms):

Bankruptcy Proceeding means, with respect to the Company or any

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Subsidiary Guarantor, a general assignment by such entity for the benefit of its creditors, or the institution by or against such entity of any proceeding seeking relief as debtor, or seeking to adjudicate such entity as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of such entity or its debts, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking appointment of a receiver, trustee, custodian or other similar official for such entity or for any substantial part of its property.

Creditor means each Lender and each Other Creditor which is or from

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time to time becomes a party hereto.

Derivatives Obligation means any obligation of the Company in respect

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of any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction or currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of the foregoing transactions.

Excess Subsidiary Payment means as to any Creditor an amount equal to  
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the Subsidiary Payment received by such Creditor less the Pro Rata Share of  
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Subsidiary Payments to which such Creditor is then entitled.

Letter of Credit means any letter of credit issued pursuant to the Long  
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Term Credit Agreement.

Maximum Available Amount means, with respect to any Letter of Credit as  
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of any date of determination, the maximum amount which may be drawn under such  
Letter of Credit (whether or not the beneficiary thereof shall have presented,  
or shall be entitled at such time to present, the drafts or other documents  
required to draw under such Letter of Credit).

Pro Rata Share of Subsidiary Payments means, as of the date of any  
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Subsidiary Payment to a Creditor, an amount equal to the product obtained by  
multiplying (x) the amount of all Subsidiary Payments made by the applicable  
Subsidiary Guarantor to all Creditors concurrently with such Subsidiary Payment  
to such Creditor less all reasonable costs incurred by such Creditors in  
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connection with the collection of such Subsidiary Payments by (y) a fraction,  
the numerator of which shall be the Specified Amount owing to such Creditor, and  
the denominator of which is the aggregate amount of all outstanding Subject  
Obligations (without giving effect in the denominator to the application of any  
such Subsidiary Payments).

Receiving Creditor shall have the meaning assigned thereto in Section  
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2.  
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Specified Amount means as to any Creditor the aggregate amount of the  
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Subject Obligations owed to such Creditor.

Subject Obligations means all principal of, premium, if any, and  
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interest on the Other Creditor Obligations and the Loans and all other  
obligations (including (i) contingent obligations under Letters of Credit and  
(ii) any make-whole amounts or similar obligations) of the Company under or in  
respect of the Other Creditor Obligations and the Loans and under the Other  
Creditor Agreements and the Bank Credit Agreements and any other obligations of  
the Company to the Lenders which are guaranteed by the Lender Guaranty,  
including any Derivatives Obligation owing to any Lender or any affiliate of any  
Lender. For purposes of determining the principal amount of "Subject  
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Obligations" pursuant to Section 2, the principal amount of Letters of Credit  
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shall be the sum of (i) the amount of unreimbursed drawings thereunder and (ii)  
the Maximum Available Amount thereof.

Subsidiary Obligations means the obligations of the Subsidiary  
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Guarantors under the Subsidiary Guaranties.

Subsidiary Payments shall have the meaning assigned thereto in Section  
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2.  
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SECTION 2. Sharing of Recoveries.

Each Creditor hereby agrees with each other Creditor that payments (including payments made through setoff of deposit balances or otherwise or payments or recoveries from any security interest granted to any Creditor) made by any Subsidiary Guarantor on account of any Subsidiary Obligation ("Subsidiary

Payments") (x) within 90 days prior to the commencement of, and during the

continuance of, a Bankruptcy Proceeding with respect to any Subsidiary Guarantor or the Company or (y) within 90 days prior to, or at any time on or after, the date of the acceleration of any Subject Obligation (or, in the case of any guaranty, any claim thereunder for the full amount owing on the underlying obligation on account of an event of default with respect thereto), shall be shared so that each Creditor shall have received its Pro Rata Share of Subsidiary Payments. Accordingly, each Creditor hereby agrees that if (a) an event described in clause (x) or (y) above shall have occurred, (b) any Creditor shall have received a Subsidiary Payment (a "Receiving Creditor"), and (c) any

other Creditor shall not have concurrently received its Pro Rata Share of Subsidiary Payments from the same Subsidiary Guarantor, then the Receiving Creditor shall promptly remit the Excess Subsidiary Payment to the other Creditors which are then entitled thereto so that after giving effect to such payment (and any other payments then being made by any other Receiving Creditor pursuant to this Section 2) each Creditor shall have received its Pro Rata Share

of Subsidiary Payments.

Any remittances pursuant to the foregoing paragraph shall be deemed to constitute purchases by the Receiving Creditor for cash at face value, but without recourse, ratably from the other Creditors such amount of Subject Obligations of the other Creditors as is necessary to cause the Receiving Creditor to share its Excess Subsidiary Payment with the other Creditors as provided above; provided that if such purchase is made by any Receiving Creditor

and such Excess Subsidiary Payment or part thereof is thereafter recovered from such Receiving Creditor by or on behalf of any Subsidiary Guarantor (including, without limitation, by any trustee in bankruptcy of any Subsidiary Guarantor or any creditor thereof), the related purchase from the other Creditors shall be rescinded ratably and the purchase price restored as to the portion of such Excess Subsidiary Payment so recovered, but without interest; and provided,

further, that nothing herein contained shall obligate any Creditor to resort to

any setoff, application of deposit balance or other means of payment for any Subject Obligation or avail itself of any recourse by resort to any property of any Subsidiary Guarantor, the taking of any such action to remain within the absolute discretion of such Creditor without obligation of any kind to the other Creditors to take any such action.

All Subsidiary Payments received by any Lender (directly, pursuant to the sharing provisions of this Section 2 or otherwise) which would be applied to

a contingent obligation under any Letter of Credit pursuant to this Section 2

shall be remitted to the Agent to be held as collateral for such Letter of Credit. If such Letter of Credit is drawn upon, the Agent shall distribute an amount equal to the lesser of such draw and the amount of cash held as collateral for such Letter of Credit to each Lender entitled thereto, ratably based upon its share thereof under the Long Term Credit Agreement. If and to the extent such Letter of Credit expires or terminates (or the Maximum Available Amount thereof is otherwise reduced), the amount of cash held as collateral therefor shall be considered a new Subsidiary Payment and shall be shared in accordance with the provisions of this Section 2.

SECTION 3. Agreements Among the Creditors.  
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Section 3.1 Independent Actions by Creditors. Nothing contained  
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in this Agreement shall prohibit any Creditor from accelerating the maturity of, or demanding payment from any Subsidiary Guarantor on, any Subject Obligation to such Creditor or from instituting legal action against any Subsidiary Guarantor to obtain a judgment or other legal process in respect of any Subject Obligation, but any funds received from any Subsidiary Guarantor in connection with any recovery therefrom shall be subject to the terms of this Agreement.

Section 3.2 Relation of Creditors. This Agreement is entered into  
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solely for the purposes set forth herein, and no Creditor assumes any responsibility to any other party hereto to advise such other party of information known to such other party regarding the financial condition of the Company or any Subsidiary Guarantor or of any other circumstance bearing upon the risk of nonpayment of any Subject Obligation. Each Creditor specifically acknowledges and agrees that nothing contained in this Agreement is or is intended to be for the benefit of the Company or any Subsidiary Guarantor and nothing contained herein shall limit or in any way modify any of the obligations of the Company or any Subsidiary Guarantor to the Creditors.

SECTION 4. Miscellaneous.  
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Section 4.1 Entire Agreement. This Agreement represents the entire  
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Agreement among the Creditors and this Agreement may not be altered, amended or modified except in a writing executed by all the parties to this Agreement (including, without limitation, any Other Creditor that becomes a party hereto after the date hereof).

Section 4.2 Notices. Notices hereunder shall be in writing (including  
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facsimile transmission) and shall be given to the applicable Creditor at its address set forth below its signature hereto or at such other address as it may designate by a written notice to the other parties hereto.

Section 4.3 Successors and Assigns. This Agreement shall be binding  
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upon and inure to the benefit of each of the Creditors and their respective successors and assigns, and the term "Creditor" shall include any subsequent holder of Subject Obligations.

Section 4.4 Further Assurances. Each Creditor agrees to do such  
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further acts and things and to execute and deliver such additional agreements, powers and instruments as any other Creditor may reasonably request to carry into effect the terms, provisions and purposes of this Agreement or to better assure and confirm unto such other Creditor its respective rights, powers and remedies hereunder.

Section 4.5 Additional Other Creditors. The Company may from time to  
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time designate additional agreements as Other Creditor Agreements hereunder and the entities providing financial accommodations under such agreements as Other Creditors hereunder; provided that the execution and delivery of such additional  
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agreement and the incurrence by the

Company of the obligations to be incurred thereunder are permitted under each Bank Credit Agreement and each existing Other Creditor Agreement. The designation of additional Other Creditor Agreements and additional Other Creditors pursuant to this Section 4.5 shall be effected by the execution and

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delivery to the Agent by the Company and the proposed Other Creditor of a duly completed supplement, substantially in the form of Exhibit A (an "Other

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Creditor Supplement"). Upon delivery of a duly executed Other Creditor

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Supplement to the Agent, the Other Creditor and the Other Creditor Agreement designated therein shall be an Other Creditor and an Other Creditor Agreement, respectively, for all purposes of this Agreement and such designated Other Creditor shall have all the rights and obligations of an Other Creditor under this Agreement. Promptly after the designation of any agreement as an Other Creditor Agreement, the Company shall distribute to each Creditor a revised Schedule I which specifies the updated list of Other Creditor Agreements and

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Other Creditors. If any Other Creditor Agreement shall expire or otherwise terminate, the Company shall deliver to the Agent and the applicable Other Creditor a notice of such expiration or termination. In addition, the Company shall distribute to the Agent and each Creditor a revised Schedule I which

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specifies the updated list of Other Creditor Agreements and Other Creditors.

Section 4.6 Governing Law. This Agreement shall be construed in

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accordance with and governed by the laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

Section 4.7 Counterparts. This Agreement may be executed in any

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number of counterparts, all of which taken together shall constitute one Agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart.

Section 4.8 Severability. In case any one or more of the provisions

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contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

Section 4.9 Submission to Jurisdiction; Waiver of Jury Trial. ANY

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LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS, AND BY ITS EXECUTION AND DELIVERY OF THIS AGREEMENT (OR ITS CONSENT TO SUCH EXECUTION AND DELIVERY BY ITS REPRESENTATIVE), EACH CREDITOR (I) CONSENTS TO THE JURISDICTION OF SUCH COURTS; (II) IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO

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THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH COURTS IN RESPECT OF THIS AGREEMENT; AND (III) WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY ILLINOIS LAW; AND (IV) WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING

OUT OF OR RELATED TO THIS AGREEMENT, WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first above written.

BANK OF AMERICA, N.A.,  
as a Lender and as Agent for the Lenders under  
each of the Long Term Credit Agreement and  
the 364-Day Credit Agreement

By: \_\_\_\_\_  
Title: \_\_\_\_\_

1455 Market Street, 12th Floor  
Mail Code CA5-701-12-09  
San Francisco, California 94103  
Attention: Gary Gordon Flieger,  
Vice President

AMERICAN UNITED LIFE INSURANCE  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

One American Square  
Post Office Box 368  
Indianapolis, Indiana 46206  
Attention: Christopher D. Pahlke,  
Securities Department

KNIGHTS OF COLUMBUS

By: \_\_\_\_\_  
Title: \_\_\_\_\_

One Columbus Plaza  
New Haven, Connecticut 06510-3326  
Attention: Investment Department

LUTHERAN BROTHERHOOD

By: \_\_\_\_\_  
Title: \_\_\_\_\_

625 Fourth Avenue South  
10th Floor  
Minneapolis, Minnesota 55415  
Attention: Keri Reich

MUTUAL OF OMAHA INSURANCE  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Mutual of Omaha Plaza  
Omaha, Nebraska 68175  
Attention: Investment Division

NATIONWIDE LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

One Nationwide Plaza (1-33-07)  
Columbus, Ohio 43215-2210  
Attention: Corporate Fixed-Income Securities

THE STATE LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

c/o American United Life Insurance Company  
One American Square  
Post Office Box 368  
Indianapolis, Indiana 46206  
Attention: Christopher D. Pahlke,  
Securities Department

UNITED OF OMAHA LIFE INSURANCE  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Mutual of Omaha Plaza  
Omaha, Nebraska 68175  
Attention: Investment Division

AMERICAN GENERAL LIFE INSURANCE  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

c/o American General Corporation  
2929 Allen Parkway  
Houston, Texas 77019-2155  
Attention: Investment Research Department,  
A37-01

THE VARIABLE ANNUITY LIFE INSURANCE  
COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

c/o American General Corporation  
2929 Allen Parkway  
Houston, Texas 77019-2155  
Attention: Investment Research Department,  
A37-01

AID ASSOCIATION FOR LUTHERANS

By: \_\_\_\_\_  
Title: \_\_\_\_\_

4321 North Ballard Road  
Appleton, Wisconsin 54919  
Attention: Investment Department

INDIANAPOLIS LIFE INSURANCE COMPANY

By: Americus Capital Management Group Inc.,  
authorized agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

c/o Americus Capital Management Group Inc.  
699 Walnut Street, Suite 300  
Des Moines, Iowa 50309  
Attention: Tamara Harmon

LONDON LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

100 Osborne Street North  
Winnipeg, Canada R3C3A5  
Attention: Bond Investments- 2C

BERKSHIRE LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

700 South Street  
Pittsfield, Massachusetts 01201  
Attention: Securities Department

AMERITAS VARIABLE LIFE INSURANCE  
COMPANY,

by Ameritas Investment Advisors, Inc. as Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

5900 "O" Street  
Lincoln, Nebraska 68510-2234  
Attention: James Mikus

THE PRUDENTIAL ASSURANCE COMPANY  
LIMITED

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Prudential Portfolio Managers Limited  
Private Finance Group  
Laurence Pountney Hill  
London EC4R 0HH  
Attention: Dagmar Kent  
PANTHER CDO I B.V.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

M&G Investment Management Limited  
Laurence Pountney Hill  
London EC4R 0HH  
Attention:

U.S. BANK NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_

601 Second Avenue  
Minneapolis, Minnesota 55402-4302  
Attention: Mark R. Olmon

Acknowledged and Consented to:

PENTAIR, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT A

Form of Other Creditor Supplement

This OTHER CREDITOR SUPPLEMENT is made as of \_\_\_\_\_ among Bank of America, N.A., as Agent for purposes of this Other Creditor Supplement (the "Agent"), Pentair, Inc. (the "Company") and \_\_\_\_\_ (the "New Other Creditor").

RECITALS

Bank of America, N.A., as agent for certain Lenders, and certain other financial institutions are parties to an Intercreditor Agreement dated as of May 1, 2001 (together with any amendments or supplements thereto, the "Agreement"), relating to guaranties issued by certain subsidiaries of the Company (collectively the "Guarantors"). Section 4.5 of the Agreement contemplates that the Company may designate additional "Other Creditor Agreements" and "Other Creditors" (as defined therein) which shall be entitled to participate in the Agreement by executing an Other Creditor Supplement accepting the terms of the Agreement.

The New Other Creditor has entered into a [DESCRIBE OTHER CREDITOR AGREEMENT] dated \_\_\_\_\_ (the "New Other Creditor Agreement"), and the Company has caused the Guarantors to execute and deliver a new Other Creditor Guaranty (the "New Other Creditor Guaranty") of the obligations of the Company under the New Other Credit Agreement. The New Other Creditor is willing to participate in the Agreement as an Other Creditor with respect to the New Other Creditor Agreement, upon the terms and conditions set forth herein, and the Company is willing to give its written approval to such participation.

In consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. The New Other Creditor hereby accepts each of the terms of the Agreement with respect to the New Other Creditor Guaranty and the obligations thereunder.
2. The Company hereby represents and warrants that all conditions precedent to the addition of the New Other Creditor as an Other Creditor pursuant to Section 4.5 of the Agreement have been satisfied.
3. The Company hereby agrees, and the Agent hereby acknowledges, that the New Other Creditor shall constitute an Other Creditor as defined in the Agreement, that the New Other Creditor Agreement shall constitute an Other Creditor Agreement as defined in the Agreement and that the New Other Creditor Guaranty shall constitute an Other Creditor Guaranty as defined in the Agreement.
4. This instrument may be executed in any number of counterparts, all of which taken together shall constitute one instrument, and any of the parties hereto may execute this instrument by signing any such counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Other Creditor Supplement to the Intercreditor Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

[NEW OTHER CREDITOR]

By: \_\_\_\_\_  
Title: \_\_\_\_\_

PENTAIR, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledged:

BANK OF AMERICA, N.A., as  
Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE I

Other Creditors and Other Creditor Agreements

Other Creditor  
- - - - -

Other Creditor Agreement  
- - - - -

American United Life Insurance Company  
Knights of Columbus  
Lutheran Brotherhood  
Mutual of Omaha Insurance Company  
Nationwide Life Insurance Company  
The State Life Insurance Company  
United of Omaha Life Insurance Company

\$35,000,000 aggregate principal amount of 6.99% Series A Senior Notes Due 2007, \$5,000,000 aggregate principal amount of 6.79% Series B Senior Notes Due 2004 and \$10,000,000 aggregate principal amount of 6.74% Series C Senior Notes Due 2004, issued by the Company pursuant to an Indenture dated as of January 24, 1997.

American General Life Insurance Company  
The Variable Annuity Life Insurance Company  
Aid Association for Lutherans  
Lutheran Brotherhood  
Knights of Columbus  
Indianapolis Life Insurance Company  
London Life Insurance Company  
Berkshire Life Insurance Company  
Ameritas Variable Life Insurance Company

Guaranty Agreement dated as of October 1, 1997, issued by the Company in respect of the \$50,000,000 aggregate principal amount of 6.68% Senior Notes Due October 1, 2003, issued by Pentair Nova Scotia Co. pursuant to a Note Purchase Agreement dated as of October 1, 1997.

The Prudential Assurance Company Limited  
Panther CDO I B.V.

Deed of Guarantee dated as of 21 May 1999, issued by the Company in respect of the (pound)19,000,000 aggregate principal amount of 6.70% Senior Notes Due 2004, issued by Pentair UK Limited pursuant to a Note Purchase Agreement dated as of 21 May 1999.

Nationwide Life Insurance Company

\$15,000,000 aggregate principal amount of 6.82% Senior Notes Due June 30, 2003,  
  
issued by the Company pursuant to a Note Purchase Agreement dated November 1, 1992, as amended.

U.S. Bank National Association

Credit Agreement dated as of October 13, 1999.

Schedule I-2

SCHEDULE II

Other Credit Guaranties

Schedule II-1

RETIREMENT AGREEMENT AND RELEASE

THIS RETIREMENT AGREEMENT AND RELEASE ("Agreement") is made and entered by and between Roy T. Rueb ("Rueb") and Pentair, Inc. ("Pentair" or the "Company").

1. Consideration. In consideration for the mutual promises exchanged

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herein and for the payments to Rueb set forth herein, Rueb and the Company acknowledge the full, complete, and final settlement of any and all claims, actions, causes of action or costs, including attorneys' fees, against the other and the other persons and entities released herein.

2. Continued Employment. The parties acknowledge that Pentair will pay

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Rueb \$5,208.33 each pay period between January 01, 2002 and December 31, 2002. In exchange for these payments, Rueb will perform special project duties as assigned on a part time basis. This amount shall be paid in accordance with the usual payroll practices of Pentair and shall be subject to applicable federal and state withholding taxes and any other deductions which have been authorized by Rueb or which Pentair may be required by law to make. Rueb will be eligible for all qualified benefit programs, to include medical and dental insurance, life insurance, disability insurance, 401(k) and Pension. There will be no  
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continued participation under Pentair's Management Incentive Plan (MIP) or the Omnibus Plan for service in 2002.

3. Separation from Service. Rueb's employment with Pentair ends

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effective December 31, 2002 (the "Separation Date"). Notwithstanding the Separation Date, Rueb ceased to be an officer and a director of Pentair and of each Pentair subsidiary listed on the attached Schedule A and a committee member or fiduciary with respect to each Pentair benefit plan listed on Schedule B as of December 31, 2001.

4. Stock and Equity Awards. Outstanding awards made to Rueb under the

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Pentair Omnibus Stock Incentive Plan (the "Omnibus Plan") and other equity awards shall be paid as follows:

a. Restricted Stock. All shares of restricted stock awarded to

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Rueb through December 31, 2001 and any shares resulting from the 2001 Key Employee Stock Ownership Incentive Plan together with any shares of restricted stock awarded to Rueb under the Omnibus Plan or any other bonus program shall, to the extent not currently vested, be vested as of December 31, 2001 and released at the time of the ICU payment. Rueb acknowledges that without this Agreement, he would not be entitled to the benefits set forth in this subparagraph.

b. Incentive Compensation Units ("ICUs. All ICUs awarded to Rueb

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as of December 31, 2001 under the Omnibus Plan shall be deemed to be fully vested as of December 31, 2001 without regard to the vesting period stated at the time of grant. The value of said awards shall be calculated and paid to Rueb in April, 2002. Rueb acknowledges that without this Agreement, he would not be entitled to the benefits set forth in this subparagraph.

c. Stock Options. All outstanding stock options granted to Rueb

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under the Omnibus Plan shall remain outstanding and exercisable by him through the earlier of their original maturity date and five years from the January 1, 2002. The date any such option is first exercisable shall not be accelerated. In the event Rueb should die before all such options have been exercised or otherwise lapse, then the beneficiary designated by Rueb shall have six (6) months from Rueb's death to exercise options then outstanding. Reload privileges are retained through your last day of employment. Any options not so exercised shall lapse. To the extent options designated as incentive stock options are exercised within thirty (30) days of the last day of Rueb's employment, they shall retain their status as qualified options; options exercised after this thirty (30) day period shall be treated as nonqualified options. If within two years after the Separation Date, Rueb shall sell any Pentair common stock acquired pursuant to the exercise of qualified options, he shall immediately notify Pentair of such sale and shall supply all information reasonably requested by Pentair with respect to such sale. Rueb acknowledges that without this Agreement, he would not be entitled to the benefits set forth in this subparagraph.

d. Insider Status. Henson & Efron, P.A. will advise Rueb in

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writing of its understanding of his status as an insider with Pentair for purposes of any stock transactions.

5. Retirement Benefits. Rueb shall receive payment from the

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tax-qualified and non qualified retirement plans maintained by Pentair as follows:

a. Pentair Pension Plan. Rueb shall be entitled to receive payment

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of his vested accrued benefit under the Pentair Pension Plan in accordance with applicable provisions of that plan. From and after the Separation Date from employment, Rueb shall cease to be eligible to accrue additional benefits under the Pentair Pension Plan.

b. Supplemental Retirement Payment. As a supplemental retirement

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benefit, Rueb (or in the event of his death his beneficiaries) shall be paid \$10,416.67 per month beginning as soon as administratively feasible after January 1, 2002 through December 31, 2002. On January 1, 2003 Rueb will be paid a supplemental retirement benefit of \$8333.83 per month payable as a life only benefit. This benefit is in lieu of benefits under either the 1988 or 1999 Supplemental Executive Retirement Plans and, except as otherwise provided in the Agreement, any other non-tax qualified retirement or deferred compensation arrangement sponsored by Pentair or any of its affiliates. The calculation of Rueb's benefit assumes that for the purpose of determining the reduction for early commencement for his January 1, 2003 benefit that Rueb is age 65. Rueb understands and agrees that this supplemental retirement benefit is more than Pentair is required to pay under its normal policies and procedures, and Rueb

acknowledges that without this Agreement, he would not be entitled to the benefits set forth in this subparagraph.

c. Retirement Savings and Stock Incentive Plan ("RSIP"). Rueb

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shall be entitled to receive payment of his vested accrued benefit under the RSIP in accordance with applicable provisions of that plan after his separation from employment. Rueb shall remain a participant in RSIP until such time as he requests and receives payment of his vested accrued benefit, but from and after the Separation Date, Rueb shall not be entitled to make contributions to the RSIP or to share in allocations of contributions made by Pentair with respect to service completed after the separation date.

d. Non-Qualified Deferred Compensation Plan ("Sidekick"). Rueb

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shall be entitled to receive payment of all amounts payable to him under the terms and conditions of the Sidekick in accordance with the payment election made by him prior to the date hereof. From and after the Separation Date, Rueb shall not be entitled to make contributions to the sidekick or to share in the allocations of contributions made by Pentair with respect to service completed after the separation date.

e. Other Deferred Compensation Plan. To the extent Rueb may have

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amounts payable to him by reason of his participation in the deferred compensation plan maintained by Pentair prior to implementation of Sidekick, Rueb shall be entitled to receive payment of such deferred compensation in accordance with the annual payment elections made by him during the time he elected to participate in such plan.

6. Insurance Benefits. Rueb shall be eligible to elect to continue

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participation in various medical, dental, life and disability insurance benefits offered by Pentair as follows:

a. Medical and Dental Insurance. In the event Rueb elects to

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continue participating in the Company's medical and dental insurance programs after his separation from employment as are made available to employees of Pentair, the cost of providing such benefits shall be shared by Pentair and Rueb on the same basis as if Rueb had remained an employee of Pentair until the earlier of such time as he is eligible for such coverage with a subsequent employer or eighteen (18) months from the Separation Date. Rueb's share of the premiums shall be paid directly to Pentair Benefits Direct. After Rueb acknowledges that he would not be entitled to this benefit without this Agreement. For purposes of COBRA, the continuation period shall begin on January 1, 2003. At the expiration of the maximum continuation period, Rueb shall be offered such conversion rights as are then being made available by the then insurer.

b. Supplemental Disability and Supplemental Life Insurance. Rueb

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will be covered under the Company's group life (including dependent life), short-

term disability and long-term disability plans, as amended from time to time, through the Separation Date. After the Separation Date, Rueb may elect to arrange for continuation of coverage and direct premium payment at his sole cost and expense.

c. Flexible Benefit Plan (125C). Rueb shall be offered the  
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opportunity to continue participation in the Pentair Flexible Benefit Plan consistent with the terms and provisions of said plan.

d. Retiree Flex Plan. Rueb may elect to begin participation in the  
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Retiree Flex Plan consistent with the terms and provisions of said plan at the end of the COBRA continuation period. The Company established the Retiree Flex Plan to offset a portion of a retiree's cost for medical coverage through cash credits which reimburse premiums paid or are applied against the retiree's contributions and make available a good selection of retiree medical coverage at group rates, where possible.

7. Other Benefits or Payments. Rueb shall be entitled to receive other  
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payments and benefits as follows:

a. Flexible Perquisite Account. Pentair will not be eligible to  
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participate in the Flexible Perquisite Plan for 2002.

b. Company Automobile. The title on the existing vehicle will be  
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released to Rueb on January 1, 2002 or as soon after that date as administratively feasible. Rueb acknowledges that without this Agreement, he would not be entitled to the benefits set forth in this subparagraph.

c. Business Expenses. Pentair will reimburse Rueb for all  
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business expenses incurred by him in the active performance of work on behalf of Pentair through December 2002, provided Rueb submits proper documentation for such expenses.

8. Confidential Information Acquired During Employment. Rueb agrees that  
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he will continue to treat, as private and privileged, any information, data, figures, projections, estimates, marketing plans, customer lists, lists of contract workers, tax records, personnel records, accounting procedures, formulas, contracts, business partners, alliances, ventures and all other confidential information which Rueb acquired while working for the Company. Further, Rueb agrees that he will not release any such information to any person, firm, corporation or other entity at any time, except as may be required by law, or as agreed to in writing by the Company. Rueb acknowledges that any violation of this non-disclosure provision shall entitle the Company to appropriate injunctive relief and to any damages which it may sustain due to the improper disclosure.

9. Confidentiality. Rueb represents and agrees that he will keep the

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terms and existence of this Agreement completely confidential, and that he will not disclose any information concerning this Agreement to anyone, except for his counsel, tax accountant, spouse or except as may be required by law or agreed to in writing by the Company.

10. Non-Solicitation/Non-Competition Agreement. Rueb acknowledges that

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during his employment at Pentair and with its subsidiaries and affiliates, he became familiar with trade secrets, know-how, executive personnel, business strategies, product development and other confidential and proprietary information concerning the business of Pentair. In consideration for the benefits paid to Rueb under this Agreement (including, but not limited to, those benefits in Paragraph 5.b. hereof), Rueb agrees that he shall not, either directly or indirectly, and without the prior written consent of Pentair:

a. own, manage, control, participate in, consult with or render services of any kind for any concern which engages in a business which is competitive with any business being conducted, or contemplated being conducted, by Pentair as of the Separation Date;

b. become an employee or agent of any publicly traded corporation or other entity, or any division or subsidiary of such a corporation or entity, where more than five percent (5%) of such organization's business is in competition with any business being conducted, or contemplated being conducted, with Pentair as of the Separation Date;

c. participate in any plan or attempt to acquire the business or assets of the Group or control of the voting stock of any member thereof, or in any manner interfere with the control of Pentair, whether by friendly or unfriendly means;

d. induce or attempt to induce any individual to leave the employ of Pentair or hire any such individual who approaches him or her for employment; or

e. engage in or sponsor the solicitation of customers of Pentair to do business with any competitor of such organization.

In the event Rueb breaches any obligation under paragraph 10 of this Agreement, the Company shall have no further obligation to make any payments contemplated under paragraph 5.b. hereof, and, in such event, Rueb shall forfeit any right to payments under paragraph 5.b. hereof.

11. Discharge of Claims. Rueb, on behalf of himself, his agents,

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representatives, attorneys, assignees, heirs, executors, and administrators, hereby releases and forever discharges the Company, and its past and present employees, agents, insurers, officials, officers, directors, divisions, parents, subsidiaries and successors, and all affiliated companies and corporations from any and all claims and causes of action of any type arising, or which may have arisen, out of or in connection with his employment or termination of employment with the Company and

its affiliated companies, including but not limited to claims, demands or actions arising under the Federal Fair Labor Standards Act, the Age Discrimination in Employment Act of 1967, 29 U.S.C. [sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act"), Title VII of the Civil Rights Act of 1964, 42 U.S.C. [sec] 2000e, et seq., the Americans with Disabilities Act, 29 U.S.C. [sec] 2101, et seq., the Family Medical Leave Act, the Minnesota Human Rights Act, Minn. State. [sec] 363.01, et seq., any other federal, state or local statute, ordinance, regulation or order regarding employment, compensation for employment, termination of employment, or discrimination in employment, and the common law of any state.

Rueb further understands that this discharge of claims extends to, but is not limited to, all claims which he may have as of the date of this Agreement against the Company and its affiliated companies, based upon statutory or common law claims for defamation, libel, slander, assault, battery, negligent or intentional infliction of emotional distress, negligent hiring or retention, breach of contract, promissory estoppel, fraud, wrongful discharge, or any other theory, whether legal or equitable, including all claims for items of compensation and benefits except as prohibited by law.

12. Cooperation. Rueb agrees that at the request of the Company, Rueb will cooperate with and assist the Company (including cooperation and assistance in any matters involving claims or lawsuits against the Company) as requested by the Company where Rueb has knowledge of the facts involved. In addition, Rueb agrees that he will, at the reasonable request of the Company, execute, if necessary, nunc pro tunc, any further documents or instruments necessary or appropriate to evidence his separation from service as an officer or director of the Company, its subsidiaries, or its affiliates, including but not necessarily limited to the forms attached hereto as Schedule A. Rueb further agrees that he will not voluntarily aid, assist, or cooperate with anyone who has claims against the Company, its affiliates or with their attorneys or agents in any claims or lawsuits which such person may bring against the Company or its affiliates. Nothing in this Agreement prevents Rueb from testifying at an administrative hearing, arbitration, deposition, or in court, in response to a lawful and properly served subpoena.

13. Releases and Other Agreements. Rueb acknowledges that Key Executive Employment and Severance Agreement entered into as of August 23, 2000 between Rueb and Pentair (the "KEESA") was terminated on December 31, 2001, the date of cessation of his active duties with Pentair as an executive officer and that he has no claims under the KEESA and the Retention Agreement against Pentair or any other person. Further Rueb agrees to execute the Key Executive Employment and Severance Agreement and Release in the form attached as Schedule C.

14. Non-Disparagement. Pentair agrees that neither it nor any of its executive officers shall disparage or defame Rueb in any respect concerning the employment relationship between them.

15. Future Employment. Rueb will not apply for or seek employment or re-employment with the Company or its affiliated companies at any time after he signs this agreement.

16. No Wrongdoing. Rueb and the Company agree and acknowledge that the

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consideration exchanged herein does not constitute, and shall not be construed as, an admission of liability or wrongdoing on the part of the Company, Rueb or any person, and shall not be admissible in any proceeding as evidence of liability or wrongdoing by anyone.

17. Minnesota Law Applies. The terms of this Agreement will be governed

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by the laws of the State of Minnesota, and shall be construed and enforced thereunder.

18. Merger. This Agreement, and the employee benefit plans in which

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Rueb participates as described herein supersede and replace all prior oral and written agreements and understandings. Rueb understands and agrees that all claims which he has or may have against the Company are fully released and discharged by this Agreement. The only claims which Rueb may hereafter assert against the Company are limited to an alleged breach of this Agreement.

19. Invalidity. If any one or more of the terms of this Agreement are

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deemed to be invalid or unenforceable by a court of law, the validity, enforceability, and legality of the remaining provisions of this Agreement will not in any way be affected or impaired thereby.

20. Amendment. This agreement maybe modified only by a subsequent

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written agreement signed by the parties hereto.

21. Rueb Understands the Terms of this Agreement. Rueb warrants that (a)

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other than stated herein, no promise or inducement has been offered for this Agreement; (b) this Agreement is executed without reliance upon any statement or representation of the Company or its representatives concerning the nature and extent of any claims or liability therefor, if any; (c) Rueb is legally competent to execute this Agreement and accepts full responsibility therefor; (d) the Company, by this Agreement, has advised Rueb to consult with an attorney, and Rueb has consulted with his attorney, Craig Erickson, regarding the purpose and effect of this Agreement; (e) the Company has allowed Rueb at least twenty-one (21) days within which to consider this Agreement, specifically Rueb may sign this Agreement any time prior to March 26, 2002, at which time it will be automatically withdrawn without further notice; (f) Rueb understands that he may nullify and rescind this Agreement as far as it extends to his release of claims arising under Minn. Stat. [sec] 363.01 et seq., the

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Minnesota Human Rights Act, and under the Age Discrimination in Employment Act of 1967, 29 U.S.C. [sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act") at any time within fifteen (15) days from the date of his signature below and, in the event of such election, Rueb shall only be entitled to receive \$1,000 which the parties acknowledge is consideration for Rueb' release of all claims other than those arising under Minn. Stat. [sec] 363.01 et seq., the Minnesota Human Rights Act, and under the

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Age Discrimination in Employment Act of 1967, 29 U.S.C. [sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act"); (g) in the event Rueb elects to nullify and rescind portions of his release under this Agreement pursuant to (f) of this paragraph, he must indicate his desire to do so in writing and deliver that writing to Deb S. Knutson, Vice President, Human Resources, Pentair, Inc., Waters Edge Plaza, 1500 County Road B2 West, St. Paul, MN 55113-3105, by hand or by certified mail; and (g) Rueb

further understands that if he exercises his rescission rights hereunder, the Company will not be bound by the terms of this Agreement (except the obligation to pay Rueb \$1,000), and Rueb will have to disgorge in full any monies and benefits received pursuant to this Agreement other than the \$1,000 sum.

Dated: March 8, 2002

\_\_\_\_\_  
Roy T. Rueb

Subscribed and sworn to before  
me this 8th day of March, 2002.

\_\_\_\_\_  
Notary Public

Dated: March 8, 2002

PENTAIR, INC.

By \_\_\_\_\_  
Its \_\_\_\_\_

Subscribed and sworn to before  
me this 8th day of March, 2002.

\_\_\_\_\_  
Notary Public

SCHEDULE A

Positions Held by Roy T. Rueb  
at Pentair

Company	Title
Pentair, Inc.	Vice President, Treasurer & Secretary
Porter-Cable Corporation	Treasurer; Secretary; Director
Pentair Tool & Equipment Sales Company	Treasurer; Secretary; Director
Delta International Machinery Corporation	Treasurer; Secretary; Director
Pentair Taiwan LLC	Director
Pentair Taiwan LLC	Nominal Ownership
Biesemeyer Manufacturing Corporation	Treasurer; Secretary; Director
Flex Elektrowerkzeuge GmbH	Prokurist
Porter-Cable de Mexico S.A. de C.V.	Treasurer; Secretary; Director
Pentair Asia Holdings SARL	Manager
Porter-Cable Argentina S.r.l.	Secretary
Porter-Cable Argentina LLC	Chief Financial Manager/ Treasurer/Secretary; Governor
DeVilbiss Air Power Company	Treasurer; Secretary; Director
Falcon Manufacturing, Inc.	Treasurer; Secretary; Director
Pentair Pump Group Inc.	Treasurer; Secretary; Director
Aplex Industries, Inc.	Treasurer; Secretary; Director
Pentair Water Treatment Company (Taiwan)	Shareholder
Pentair Pool Products, Inc.	Treasurer; Secretary; Director
Compool, Inc.	Treasurer; Secretary; Director
Rainbow Acquisition Corporation	
Purex Pool Systems, Inc.	Treasurer; Secretary; Director
Enpac Corporation	
National Pool Tile Group, Inc.	Treasurer; Secretary; Director
Fleck Controls, Inc.	Treasurer; Secretary; Director
Structural (Essef Corporation)	Treasurer; Secretary; Director

Company	Title
Structural Fibers International	
Structural Ontario	
EPPS Limited	Treasurer; Secretary; Director
Codeline Corporation	
Structural Australia	
Darby Engineering	
Pentair Water India Private Limited (Structural India Private Limited)	Treasurer; Secretary
Pentair Water Belgium (Structural Europe NV)	Treasurer; Secretary; Director
Sanford Technologies	Treasurer; Secretary; Director
Hoffman Enclosures, Inc.	Treasurer; Secretary; Director
Hoffman Engineering Co Limited	Treasurer; Secretary; Director
Hoffman Engineering, S.A. de C.V. de SrL	Treasurer; Secretary
Pentair Electronic Packaging Company	Treasurer; Secretary; Director
Schroff, Inc.	Treasurer; Secretary; Director
Web Tool & Manufacturing, Inc.	Treasurer; Secretary
WTM, Inc.	Treasurer; Secretary
Electronic Enclosures, Inc.	Treasurer; Secretary
Pentair Enclosures, Inc.	Treasurer; Secretary; Director
Schroff, GmbH	Prokurist
Schroff U.K. Ltd.	Secretary; Director
Pentair Enclosures Ltd.	
Optima Enclosures Limited	
Eraba Holdings Limited	
Nekevets Limited	Director; Secretary
Optima Holdings Limited	
Eraba Limited	
Eraba Engineering Limited	
Hoffman-Schroff PTE Ltd.	Treasurer; Secretary; Director
Pentair Global SARL	Director
Europentair, GmbH	Prokurist
Pentair U.K. Ltd.	Director; Secretary
Pentair Canada, Inc.	Treasurer; Secretary
Pentair Asia, PTE Ltd.	Treasurer; Secretary; Director

Company	Title
Pentair Pacific Rim Limited	Treasurer; Secretary
Hoffman Enclosures (Mex), LLC	Secretary; Director
Palker Dickson, Inc.	Treasurer; Secretary
Penwald Insurance Company	Treasurer; Secretary
Pentair Foreign Sales Corporation	Treasurer; Secretary; Director
Pentair Financial Services Ireland	Director; Treasurer
Pentair Nova Scotia, Co.	Director; Treasurer; Secretary
Pentair Halifax, Incorporated	Director; Treasurer; Secretary
McNeil (Ohio) Corporation	Treasurer; Secretary; Director
Essef Mfg. FSC	Treasurer; Secretary; Director
EuroPentair Vermugens verweltung GmbH	Prokurist
Century Manufacturing Co.	Treasurer; Secretary; Director
Lincoln Automotive Company	Treasurer; Secretary; Director
Apno, SA de CV	Treasurer; Secretary; Director

SCHEDULE B

Fiduciary Positions Held by Roy T. Rueb  
at Pentair

Committee/Plan	Title
Bargaining and Non-Bargaining Pension Plans	Member
Retirement Savings & Stock Incentive Plan	Member
International Stock Purchase and Bonus Plan	Member
The Pentair Foundation	Treasurer; Secretary

SCHEDULE C

KEY EXECUTIVE EMPLOYMENT AND SEVERANCE AGREEMENT  
RELEASE

WHEREAS, the undersigned Roy T. Rueb ("Rueb") and Pentair, Inc., a Minnesota corporation, ("Pentair") entered into a Retirement Agreement and Release executed by Rueb on March 8, 2002 and by Pentair on March 11, 2002 (the "Retirement Agreement").

WHEREAS, Rueb was a party to a Key Executive Employment and Severance Agreement, dated August 23, 2000, with Pentair (the "KEESA").

WHEREAS, Section 3 of the Retirement Agreement provides that Rueb's terminated on the date of termination of his active duties as an executive officer with Pentair, December 31, 2001.

WHEREAS, Rueb desires to execute this release of Pentair from its obligations under the KEESA by executing this Key Executive Employment and Severance Release (this "Release"), in accordance with Section 13 of the Retirement Agreement.

NOW, THEREFORE, in consideration of the benefits and payments provided under the Retirement Agreement in connection with the cessation of Rueb's employment with Pentair as an executive officer and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Rueb hereby agrees as follows:

Rueb agrees that the KEESA was terminated and ceased to be effective as of December 31, 2001 and are and shall be of no further force and effect. Without limiting the foregoing, Rueb agrees that, in the event of a Change in Control of the Company (as such term is defined in the KEESA) after December 31, 2001, the cessation of Rueb's employment with the Company as an executive officer shall not be deemed to be a Covered Termination (as such term is defined in the KEESA) for purposes of the KEESA and Section 2(b) of the KEESA is hereby amended to reflect such agreement.

Rueb, on behalf of himself, his spouse, heirs, executors, administrators, agents, successors, assigns and representatives of any kind (hereinafter collectively referred to as the "Releasers") hereby absolutely, unconditionally and irrevocably releases and discharges, its subsidiaries, affiliates, their employees, successors, assigns, executors, trustees, directors, advisors, agents and representatives, and all their respective predecessors and successors (hereinafter collectively referred to as the "Releasees"), from (a) any and all obligations whatsoever under the KEESA, including, without limitation, with respect to salary, bonus or incentive compensation, fringe benefits, vacation and holiday payments, termination or severance payments, insurance, outplacement services, vesting of benefits and employment Pentair, and (b) any and all actions, causes of action, demands, suits, charges, damages, attorneys' fees, costs, expenses, damages, judgments, orders and liabilities and claims of any kind whatsoever arising out of the KEESA, whether in law or equity, whether known or unknown, whether fixed or

contingent, which any of the Releasers ever had, now has or hereafter can, shall or may have against any of the Releasees.

Rueb agrees that the provisions of this Release are contractual and not a mere recital and that Rueb enters into this Release as a result of significant consideration. Rueb acknowledges that before signing this Release he has received and reviewed in detail this Release, that he fully understands the terms, content and effect of this Release and that he has had the opportunity to obtain advice from an attorney of his own choosing and has had an opportunity to ask questions of, and receive answers from Pentair, with respect to the matters covered by this Release.

This Release will be subject to and interpreted pursuant to the internal laws of the State of Minnesota.

This Release shall extend to and be binding upon Rueb and his successors and assigns, and shall inure to the benefit of Pentair and its successors and assigns.

IN WITNESS WHEREOF, Rueb has executed this Release as of the 8th day of March, 2002.

\_\_\_\_\_  
Roy T. Rueb

Pentair, Inc.

\_\_\_\_\_  
By: \_\_\_\_\_  
Its: \_\_\_\_\_

SEPARATION AGREEMENT AND RELEASE

THIS SEPARATION AGREEMENT AND RELEASE ("Agreement") is made and entered into by and between George Danko ("Danko") and Pentair, Inc. ("Pentair").

1. Consideration. In consideration for the mutual promises and the

payments to Danko as set forth herein, Danko hereby acknowledges the full, complete, and final settlement of any and all claims, actions, causes of action or costs, including attorneys' fees, which he might have against Pentair. In exchange, Pentair hereby acknowledges the full, complete, and final settlement of any and all claims, actions, causes of action or costs, including attorneys' fees which it might have against Danko.

2. Discharge of Claims. Danko, on behalf of himself, his agents,

representatives, attorneys, assignees, heirs, executors, and administrators ("Releasor"), hereby releases and forever discharges Pentair, and all past and present employees, agents, insurers, officials, officers, directors, divisions, parents, subsidiaries and successors thereof ("Releasees") from any and all claims and causes of action of any type arising, or which may have arisen, out of or in connection with his employment or the termination of his employment with Pentair, including but not limited to claims, demands or actions arising under the Federal Fair Labor Standards Act, the Age Discrimination in Employment Act of 1967, 29 U.S.C. [sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act"), Title VII of the Civil Rights Act of 1964, 42 U.S.C. [sec] 2000e, et seq., the

Americans with Disabilities Act, 29 U.S.C. [sec] 2101, et seq., the Family

Medical Leave Act, the Minnesota Human Rights Act, Minn. Stat. [sec] 363.01, et seq., any other federal, state or local statute, ordinance, regulation or order

regarding employment, compensation for employment, termination of employment, or discrimination in employment, and the common law of any state.

Releasor further understands that this discharge of claims extends to, but is not limited to, all claims which he may have as of the date of this Agreement against any Releasee, based upon statutory or common law claims for defamation, libel, slander, assault, battery, negligent or intentional infliction of emotional distress, negligent hiring or retention, breach of contract, promissory estoppel, fraud, wrongful discharge, or any other theory, whether legal or equitable, including all claims for items of compensation and benefits except as prohibited by law.

3. Confidential Information Acquired During Employment. Danko agrees that

he will continue to treat as private and privileged any information, data, figures, projections, estimates, marketing plans, customer lists, lists of contract workers, tax records, personnel records, accounting procedures, formulas, contracts, business partners, alliances, ventures and all other confidential information which Danko either developed or acquired while working for Pentair or any affiliate. Further, Danko agrees that he will not release any such information to any person, firm, corporation or other entity at any time, except as may be required by law, or as agreed to in writing by Pentair. Danko acknowledges that any violation of this non-disclosure provision shall entitle Pentair to appropriate injunctive relief and to any damages which it may sustain due to an improper disclosure.

4. Confidentiality. Danko represents and agrees that he will keep the

terms and existence of this Agreement completely confidential, and that he will not disclose any information concerning this Agreement to anyone, except for his counsel, tax accountant, or spouse, if any, each of whom shall also be advised to keep the existence of this Agreement and its terms and conditions in the strictest confidence, or except as may be required by law or otherwise agreed to in writing by Pentair. Pentair represents and agrees that it

will keep the terms and existence of this Agreement confidential, except as required by law or regulation or otherwise agreed to in writing by Danko.

5. Non-Solicitation/Non-Competition Agreement. Danko acknowledges that

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during his employment at Pentair and with its subsidiaries and affiliates, he became familiar with trade secrets, know-how, executive personnel, business strategies, product development and other confidential and proprietary information concerning the business of Pentair's Enclosures Group (the "Group"). In consideration for the benefits paid to Danko under this Agreement (including, but not limited to, those benefits in Paragraph 11.b hereof), Danko agrees that he shall not, either directly or indirectly, for a period of one (1) year from the Separation Date as defined in Paragraph 7 of this Agreement, and without the prior written consent of Pentair:

a. own, manage, control, participate in, consult with or render services of any kind for any concern which engages in a business which is competitive with any business being conducted, or contemplated being conducted, by the Group as of October 17, 2001;

b. become an employee or agent of any publicly traded corporation or other entity, or any division or subsidiary of such a corporation or entity, where more than ten percent (10%) of such organization's business is in competition with any business being conducted, or contemplated being conducted, by the Group as of the Separation Date, unless the annual sales of such organization do not exceed \$40 million;

c. participate in any plan or attempt to acquire the business or assets of the Group or control of the voting stock of any member thereof, or in any manner interfere with the control of Pentair or the Group, whether by friendly or unfriendly means;

d. induce or attempt to induce any individual to leave the employ of Pentair or any Group member or hire any such individual who approaches him or her for employment; or

e. engage in or sponsor the solicitation of customers of any Group member to do business with any competitor of such organization.

In the event Danko breaches any obligation under paragraph 5 of this Agreement, the Company shall have no obligation to make any payments contemplated under paragraph 11.b hereof, and, in such event, Danko shall forfeit any right to payments under paragraph 11.b hereof.

6. No Wrongdoing. Danko and Pentair agree and acknowledge that the

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consideration exchanged herein does not constitute, and shall not be construed as, an admission of liability or wrongdoing on the part of Pentair or the Group, and that this Agreement shall not be admissible in any proceeding as evidence of liability or wrongdoing by anyone.

7. Separation from Service. Danko's employment with the Pentair and the

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Group ends effective November 30, 2001 (the "Separation Date"). Danko ceased to perform duties as an employee or officer of Pentair in the positions listed on the attached Schedule A as of October 17, 2001. Danko will not apply for or seek employment or re-employment with Pentair or any Group member at any time after he signs this Agreement.

8. Consulting/Transition Payments. Danko shall receive three payments of

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\$13,125.00 for remaining available to consult with the company regarding the transition of his responsibilities, less FICA,

income tax, and other withholding or payroll deductions as outlined in this Agreement or which Pentair may be required by law to make. These payments shall be payable according to Pentair's usual payroll cycle starting on October 30 or immediately following the expiration date of the rescission period described in Paragraph 23, whichever occurs first.

9. Severance Payment. Provided Danko does not rescind the Agreement in  
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the manner provided in Paragraph 23 of the Agreement, he will receive twenty-four (24) semi-monthly severance payments of \$ 13,125.00 each (less FICA, income tax, and other withholding or payroll deductions as outlined in this Agreement or which Pentair may be required by law to make). These severance payments shall be payable according to Pentair's usual payroll cycle starting on or immediately following the expiration date of the rescission period described in said Paragraph 23. Danko shall receive all such severance payments regardless of whether he secures other employment prior to November 30, 2002. This severance payment will not be considered eligible earnings for purposes of determining benefits under the Pentair Pension Plan or the Pentair Retirement Savings and Stock Incentive Plan.

10. Management Incentive Plan. A payment will be made under Pentair's  
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Management Incentive Plan to Danko in March of 2002 calculated as if he had been eligible for a prorated MIP payment as of his separation date. Such payment will be calculated on the basis of a 1.0 multiplier and an SPF of 0.2 or such other calculation made for other officers receiving payments in March 2002, whichever is greater and, in any case, shall be not less than \$26,460.

11. Stock and Equity Awards. Outstanding awards made to Danko under the  
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Pentair Omnibus Stock Incentive Plan (the "Omnibus Plan") and other equity awards shall be paid as described below. Danko understands and agrees that the payment of these awards as described herein is discretionary and not required under the normal policies and procedures of Pentair, and that he would not be entitled to these benefits without this Agreement.

a. Restricted Stock. Nine hundred seventy two (972) shares of  
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restricted stock awarded to Danko through the Separation Date under the Omnibus Plan as a result of the Stock Incentive Plan shall, to the extent not currently vested, be vested immediately following the expiration of the rescission period described in said Paragraph 23. Rights to any other shares of restricted stock heretofore awarded to Danko but not vested, including specifically but not exclusively all remaining TARSAP shares, are hereby terminated.

b. Incentive Compensation Units ("ICUs"). All ICUs awarded to  
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Danko through the Separation Date under the Omnibus Plan shall be deemed to be fully vested immediately following the expiration of the rescission period described in said Paragraph 23 without regard to the vesting period stated at the time of grant. Said awards shall be valued calculated by using a multiplier of 0.70, which value shall be not less than \$236,059, and paid to Danko according to the usual payment schedule.

c. Stock Options. Immediately following the expiration of the  
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rescission period described in said Paragraph 23 all vested stock options granted to Danko through the Separation Date under the Omnibus Plan and two-thirds of the stock Options granted to Danko in 2001 shall remain outstanding and exercisable by him through the earlier of their original maturity date and three (3) years from the Separation Date; provided, however, that the date any such option is first exercisable shall not be accelerated. Attached as Schedule C to this Agreement is a listing of such vested stock options, whether incentive or non-qualified stock options, and the dates of first exercisability and lapse thereof in accordance with the terms of this paragraph c.

To the extent options designated as incentive stock options are exercised within thirty (30) days of the last day of Danko's employment, they shall retain their status as qualified options, to the extent otherwise qualifying as incentive stock options; options exercised after this thirty (30) day period shall be treated as nonqualified options.

In the event Danko shall sell any Pentair common stock acquired pursuant to the exercise of an incentive stock option in a disqualifying disposition, Danko shall immediately notify Pentair of such disposition and supply all information with respect to such sale as is reasonably requested by Pentair. This notification obligation shall apply regardless of whether such options were exercised before or after the Separation Date. For purposes of this subparagraph, any disposition of Pentair common stock received upon exercise of an incentive stock option, within twelve (12) months of such exercise, shall constitute a disqualifying disposition.

In the event Danko should die before all such options have been exercised or otherwise lapse, then the beneficiary designated by Danko shall have six (6) months from Danko's death to exercise any options then outstanding. Any options not so exercised shall lapse at the end of said six (6) month period.

12. Retirement Benefits. Danko shall receive payment from the

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tax-qualified and non-qualified retirement plans maintained by Pentair as follows:

a. Pentair Pension Plan. Danko shall be entitled to receive

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payment of his vested accrued benefit under the Pentair Pension Plan, determined as of the Separation Date, in accordance with applicable provisions of that plan. From and after the Separation Date, Danko shall cease to be eligible to accrue additional benefits under the Pentair Pension Plan.

The benefits described herein are in lieu of benefits under either the 1988 or 1999 Supplemental Executive Retirement Plans, and Danko has not yet earned, nor is he now entitled to, payment of a benefit under either of said plans.

b. Retirement Savings and Stock Incentive Plan ("RSIP"). Danko

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shall be entitled to receive payment of his vested accrued benefit under RSIP in accordance with applicable provisions of that plan. Danko shall remain a participant in RSIP until such time as he requests and receives payment of his vested accrued benefit. From and after the Separation Date, Danko shall not be entitled to make contributions to RSIP, but shall be entitled to share in allocations of contributions made by Pentair after such date, including matching or employer discretionary contributions payable on account of service completed, deferrals made or salary paid to Danko through the Separation Date, to the extent required by applicable provisions of RSIP.

c. Non-Qualified Deferred Compensation Plan ("Sidekick").

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Danko shall be entitled to receive payment of all amounts payable to him under the terms and conditions of the Sidekick in accordance with the applicable provisions of said plan. From and after the Separation Date, Danko shall not be entitled to make contributions to Sidekick, but shall be entitled to share in allocations of contributions made by Pentair after such date, including matching or employer discretionary contributions payable on account of service completed, deferrals made or salary paid to Danko through the Separation Date, to the extent required by applicable provisions of Sidekick.

d. Other Deferred Compensation Plan. To the extent Danko may

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have amounts payable to him by reason of his participation in the deferred compensation plan maintained by Pentair prior to implementation of Sidekick, Danko shall be entitled to receive payment of such deferred compensation in accordance with the annual payment elections made by him during the time he elected to participate in such plan.

13. Insurance Benefits. Danko shall be eligible to elect to continue

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participation in various medical, dental, life and disability insurance benefits offered by Pentair as follows:

a. Medical and Dental Insurance. In the event Danko elects to

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continue participating in such medical and dental insurance programs as are made available to employees of Pentair, the cost of continuing such benefits shall be shared by Pentair and Danko on the same basis as if Danko had remained an employee of Pentair until the earlier of such time as he is eligible for such coverage with a subsequent employer or eighteen (18) months from the Separation Date. Beginning December 1, 2001 Danko shall reimburse Pentair for his share of the applicable premium cost. Danko acknowledges that he would not be entitled to continue these benefits by paying the same premium charge as is paid by an active employee without this Agreement. For purposes of COBRA, the continuation period shall begin on the Separation Date. At the expiration of the maximum continuation period, Danko shall be offered such conversion rights as are then being made available by the then insurer.

b. Disability and Life Insurance. Danko will be covered under

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the Pentair group life (including dependent life), short-term disability and long-term disability plans, as amended from time to time, through the Separation Date. After the Separation Date, Danko may elect to arrange for continuation of coverage, if available under any such plans, and all premiums for such coverage shall be paid solely by Danko.

c. Flexible Benefit Plan. Danko shall be offered the opportunity

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to continue participation in the Pentair Flexible Benefit Plan consistent with the terms and provisions of said plan, which requires such continuation contributions to be made on an after-tax basis.

14. Other Benefits or Payments. Danko shall be entitled to receive other

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payments and benefits as described below. Danko understands and agrees that without this Agreement, he would not be entitled to any of such benefits or payments.

a. Flexible Perquisite Account. Pentair will pay to Danko a

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maximum of \$20,000 for the year 2001 under the Pentair Flexible Perquisite Plan. Any amounts not theretofore paid to Danko or for his benefit pursuant to the plan provisions as of December 15, 2001 shall be paid to Danko on such date. No payments will be made until the expiration of the rescission period described in said Paragraph 23.

b. Company Vehicle. Danko may elect to return to Pentair the

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vehicle provided to him by Pentair which is currently in his possession, to purchase the vehicle on the Separation Date or assume the vehicle lease. The Flexible Perquisite Account benefit described in the preceding paragraph may be used to offset the vehicle purchase price if such benefit is not otherwise paid to Danko in cash. In the event Danko elects to retain the vehicle, all applicable sales or other taxes and transfer fees shall be paid by Danko.

c. Business Expenses. Pentair will reimburse Danko for all

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business expenses incurred by him in the active performance of his duties on behalf of Pentair through November 30, 2001, provided Danko submits proper documentation for such expenses.

15. Non-Disparagement. Pentair agrees that neither it nor any of its

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executive officers shall disparage or defame Danko in any respect concerning the employment relationship between them.

16. Vacation Pay. Pentair will pay to Danko vacation pay for nine

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(9) accrued but unused vacation days. No payments will be made until the expiration of the rescission period described in said Paragraph 23.

17. Executive Outplacement. Pentair will pay \$31,500 for the purpose

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of obtaining outplacement services with Lee Hecht Harrison for Danko's benefit.

18. Cooperation. Danko agrees that, at the request of Pentair, Danko

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will cooperate with and assist Pentair or any other Group member in any matters involving claims or lawsuits by or against Pentair or any Group member as requested by Pentair where Danko has knowledge of the facts involved; provided, however, that to the extent that such cooperation and assistance requires more than nominal time, Danko will be compensated for his time reasonably required to render such assistance, at the hourly rate of \$200. In addition, Danko agrees that he will, at the reasonable request of Pentair, execute, if and as necessary, any further documents or instruments necessary or appropriate to evidence his separation from service as an officer or director of any Group. Danko further agrees that he will not voluntarily aid, assist, or cooperate with anyone who has claims against Pentair or any Group member or with their attorneys or agents in any claims or lawsuits which such person may bring against Pentair or any Group member. Nothing in this Agreement prevents Danko from testifying at an administrative hearing, arbitration, deposition, or in court, in response to a lawful and properly served subpoena.

19. Releases under Other Agreements. Danko acknowledges that the

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following agreements:

(a) Key Executive Employment and Severance Agreement entered into as of August 23, 2000 between Danko and Pentair (the "KEESA"); and

(b) Retention Agreement entered into as of April 8, 2001 between Danko and Pentair (the "Retention Agreement");

were terminated on October 17, 2001, the date of cessation of his active duties with Pentair and that he has no claims under the KEESA and the Retention Agreement against Pentair or any other person. Further Danko agrees to execute the Key Executive Employment and Severance Agreement and Retention Agreement Release in the form attached as Schedule B.

20. Minnesota Law Applies. The terms of this Agreement will be

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governed by the substantive laws of the State of Minnesota, without regard or any choice or conflict of laws provisions thereof, and shall be construed and enforced thereunder. All disputes arising out of or relating to this Agreement shall be subject to the jurisdiction of the state court sitting in the County of Hennepin, State of Minnesota, and both parties hereby irrevocably submit to the jurisdiction of such court.

21. Merger. This Agreement supersedes and replaces all prior oral and

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written agreements and understandings between Danko and Pentair or any affiliate. Danko understands and agrees that all claims which he has or may have against Pentair or any affiliate are fully released and discharged by this

Agreement. Except to the extent otherwise required by law, the only claims which Danko may hereafter assert against Pentair are limited to an alleged breach of this Agreement.

22. Invalidity. If any one or more of the terms of this Agreement are

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deemed to be invalid or unenforceable by a court of competent jurisdiction, the validity, enforceability, and legality of the remaining provisions of this Agreement will not in any way be affected or impaired thereby.

23. Danko Understands the Terms of this Agreement. Danko warrants

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that (a) other than as stated herein, no promise or inducement has been offered for this Agreement; (b) this Agreement is executed without reliance upon any statement or representation of any representatives of Pentair concerning the nature and extent of any claims or liability therefor, if any; (c) Danko is legally competent to execute this Agreement and accepts full responsibility therefor; (d) Pentair, by this Agreement, has advised Danko to consult with an attorney of his choice regarding the purpose and effect of this Agreement; (e) Pentair has allowed Danko at least twenty-one (21) days within which to consider this Agreement, after which time it will be automatically withdrawn without further notice; (f) Danko understands that he may nullify and rescind this Agreement as far as it extends to his release of claims arising under Minn. Stat.[sec] 363.01 et seq., the Minnesota Human Rights Act, and under the

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Age Discrimination in Employment Act of 1967, 29 U.S.C.[sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act") at any time within fifteen (15) days from the date of his signature below and, in the event of such election, Danko shall only be entitled to receive \$1,000 which the parties acknowledge is consideration for Danko's release of all claims other than those arising under Minn. Stat.[sec] 363.01 et seq., the Minnesota Human

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Rights Act, and under the Age Discrimination in Employment Act of 1967, 29 U.S.C.[sec] 626, as amended by Public Law 101.433 (1990) (the "Older Workers Benefit Protection Act"); (g) in the event Danko elects to nullify and rescind portions of his release under this Agreement pursuant to (f) of this paragraph, he must indicate his desire to do so in writing and deliver that writing to Deb S. Knutson, Vice President, Human Resources, Pentair, Inc., Waters Edge Plaza, 1500 County Road B2 West, St. Paul, MN 55113-3105, by hand or by certified mail; and (g) Danko further understands that if he exercises his rescission rights hereunder, Pentair will not be bound by the terms of this Agreement (except the obligation to pay Danko \$1,000), and Danko will have to disgorge in full any monies and benefits received pursuant to this Agreement other than the \$1,000 sum.

Dated: December 4, 2001

\_\_\_\_\_  
George Danko

Subscribed and sworn to before me  
this 4 th day of December, 2001.

\_\_\_\_\_  
Notary Public

Dated: December 3, 2001

PENTAIR, INC.

By \_\_\_\_\_

Its \_\_\_\_\_

Subscribed and sworn to before me  
this 3 rd day of December, 2001.

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Notary Public

SCHEDULE A

Positions Held by George Danko  
at Pentair and Subsidiaries

Company	Title
Pentair, Inc.	President and COO, Enclosures Group, Employee
Hoffman Enclosures Inc.	Chairman, Director
Hoffman Engineering, S. A. de C. V. de Srl	Chief Executive Officer, Director
Pentair Electronic Packaging Company	Chairman, Director
Schroff, Inc.	Chairman, Director
Web Tool & Manufacturing, Inc.	Chairman, Director
WTM, Inc.	Chairman, Director
Electronic Enclosures, Inc.	Chairman, Director
Schroff GmbH	Geschäftsführer
Pentair Enclosures Ltd.	Director
Optima Enclosures Limited	Director
Eraba Holdings Limited	Director
Optima Holdings Limited	Director
Eraba Limited	Director
Eraba Engineering Limited	Director
Hoffman Enclosures (MEX) LLC	Director
Walker Dickson, inc.	Chairman, Director

SCHEDULE B

KEY EXECUTIVE EMPLOYMENT AND SEVERANCE AGREEMENT  
AND RETENTION AGREEMENT RELEASE

WHEREAS, the undersigned George M. Danko ("Danko") and Pentair, Inc., a Minnesota corporation, ("Pentair") entered into a Separation Agreement and Release executed by Danko on December 4, 2001 and by Pentair on December 3, 2001 (the "Separation Agreement").

WHEREAS, Danko was a party to a Key Executive Employment and Severance Agreement, dated August 23, 2000, with Pentair (the "KEESA") and a Retention Agreement, dated April 8, 2001, with Pentair (the "Retention Agreement").

WHEREAS, Section 18 of the Separation Agreement provides that Danko's KEESA and the Retention Agreement terminated on the date of termination of his active duties with Pentair, October 17, 2001.

NOW, THEREFORE, in consideration of the benefits and payments provided under the Separation Agreement in connection with the cessation of Danko's employment with Pentair and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Danko hereby agrees as follows:

Danko agrees that each of the KEESA and the Retention Agreement was terminated and ceased to be effective as of October 17, 2001 and are and shall be of no further force and effect. Without limiting the foregoing, Danko agrees that, in the event of a Change in Control of the Company (as such term is defined in the KEESA) after October 17, 2001, the cessation of Danko's employment with the Company shall not be deemed to be a Covered Termination (as such term is defined in the KEESA) for purposes of the KEESA and Section 2(b) of the KEESA is hereby amended to reflect such agreement.

Danko, on behalf of himself, his spouse, heirs, executors, administrators, agents, successors, assigns and representatives of any kind (hereinafter collectively referred to as the "Releasers") hereby absolutely, unconditionally and irrevocably releases and discharges, its subsidiaries, affiliates, their employees, successors, assigns, executors, trustees, directors, advisors, agents and representatives, and all their respective predecessors and successors (hereinafter collectively referred to as the "Releasees"), from (a) any and all obligations whatsoever under the KEESA and the Retention Agreement, including, without limitation, with respect to salary, bonus or incentive compensation, fringe benefits, vacation and holiday payments, termination or severance payments, insurance, outplacement services, vesting of benefits and employment Pentair, and (b) any and all actions, causes of action, demands, suits, charges, damages, attorneys' fees, costs, expenses, damages, judgments, orders and liabilities and claims of any kind whatsoever arising out of the KEESA and the Retention Agreement, whether in law or equity, whether known or unknown, whether fixed or contingent, which any of the Releasers ever had, now has or hereafter can, shall or may have against any of the Releasees.

Danko agrees that the provisions of this Release are contractual and not a mere recital and that Danko enters into this Release as a result of consideration given under the Separation Agreement. Danko acknowledges that before signing this Release he has received and reviewed in detail this Release, that he fully understands the terms, content and effect of this Release and that he has had the opportunity to obtain advice from an attorney of his own choosing and has had an opportunity to ask questions of, and receive answers from Pentair, with respect to the matters covered by this Release.

This Release will be subject to and interpreted pursuant to the internal laws of the State of Minnesota.

This Release shall extend to and be binding upon Danko and his successors and assigns, and shall inure to the benefit of Pentair and its successors and assigns.

IN WITNESS WHEREOF, Danko has executed this Release as of the 4 th day of December, 2001.

Pentair, Inc.

\_\_\_\_\_  
George M. Danko

By: \_\_\_\_\_

Its: \_\_\_\_\_

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## EXHIBIT 21

### Pentair, Inc. and subsidiaries as of March 1, 2002

<u>Name of Company</u>	<u>Jurisdiction of Incorporation</u>
Aplex Industries, Inc.	United States
Apno S.A. de C.V.	Mexico
Biesemeyer Manufacturing Corporation	United States
Century Manufacturing Co.	United States
CO Acquisition Corp.	United States
Codeline Corporation	United States
Compool Inc.	United States
Delta International Machinery Corp.	United States
DeVilbiss Air Power Company	United States
Distribuidora PorterCable Limitada	Chile
Electronic Enclosures, Inc.	United States
Epps Limited	Mauritius
Eraba Engineering Limited	United Kingdom
Eraba Holdings Ltd	United Kingdom
Eraba Limited	United Kingdom
Essef Corporation	United States
Essef Manufacturing FSC, Inc.	Virgin Islands
EuroPentair GmbH	Germany
EuroPentair Vermögensverwaltung GmbH	Germany
Falcon Manufacturing, Inc.	United States
Fleck Controls, Inc.	United States
Fleck Europe SARL	France
Flex Elektrowerkzeuge GmbH	Germany
Hangtech LLC <sup>(1)</sup>	Hong Kong
Hoffman Enclosures (Mex), LLC	United States
Hoffman Enclosures Inc.	United States
Hoffman Engineering Co Limited	United Kingdom
Hoffman Engineering S. de C.V. de R.L.	Mexico
Hoffman Schroff PTE Ltd.	Singapore
Idea Europe SA	France
Joinery Industrial Co. Ltd. <sup>(1)</sup>	Taiwan
Jointech Corporation Ltd. <sup>(1)</sup>	Cayman Islands
Kreepy Krauly (PTY) Ltd	South Africa
Lincoln Automotive Company	United States
McNeil Ohio Corporation	United States
Metalurgica Taunus Ltda	Brazil
National Pool Tile Group, Inc.	United States
Optima Enclosures Limited	United Kingdom
Optima Holdings Limited	United Kingdom
Orion International Corp <sup>(1)</sup>	United States
Pentair Aquaculture SA	Switzerland
Pentair Asia Holding SARL	Luxembourg
Pentair Asia PTE Ltd.	Singapore
Pentair Canada, Inc.	Canada
Pentair DMP, Inc.	United States
Pentair do Brasil Holdings Ltda	Brazil
Pentair Electronic Packaging Company	United States

<u>Name of Company</u>	<u>Jurisdiction of Incorporation</u>
Pentair Electronic Packaging de Mexico, S. de R.L. de C.V	Mexico
Pentair Enclosures de Chile S.r.L.	Chile
Pentair Enclosures Limited	United Kingdom
Pentair Enclosures, Inc.	United States
Pentair Enclosures, S. de R.L. de C.V.	Mexico
Pentair Financial Services (Ireland)	Ireland
Pentair FSC Corporation	Barbados
Pentair Global Sarl	Luxembourg
Pentair Halifax, Inc.	Canada
Pentair Housing LLC	United States
Pentair Housing, Inc.	United States
Pentair International Sarl	Luxembourg
Pentair Nova Scotia Co.	Canada
Pentair Pacific Rim (Water) Limited	Hong Kong
Pentair Pacific Rim, Ltd.	Hong Kong
Pentair Pool Products, Inc.	United States
Pentair Pump Group Inc.	United States
Pentair Qingdao Enclosure Company Ltd.	P.R.C.
Pentair Taiwan LLC	Taiwan
Pentair Tool and Equipment Sales Company	United States
Pentair Tools Ltd.	United Kingdom
Pentair Transport, Inc.	United States
Pentair U.K. Ltd.	United Kingdom
Pentair Water (Suzhou) Company Ltd.	P.R.C.
Pentair Water Belgium NV	Belgium
Pentair Water Distribution S.p.a.	Italy
Pentair Water France SAS	France
Pentair Water India Private Limited	India
Pentair Water Italy S.r.l.	Italy
Pentair Water Taiwan Co., Ltd.	Taiwan
Pentair Water Technologies Ltd.	Virgin Islands
Pentair Water Treatment Private Limited	India
Penwald Insurance Company	United States
Porter-Cable Argentina S.R.L.	Argentina
Porter-Cable Argentina, LLC	United States
Porter-Cable Corporation	United States
Porter-Cable de Mexico SA de C.V.	Mexico
Qingdao Sungun Power Tool Co. Ltd. <sup>(1)</sup>	P.R.C.
Rainbow Acquisition Corporation	United States
Sanford Technology Corporation	United States
Schroff Co. Ltd.	Taiwan
Schroff Electronics GmbH	Switzerland
Schroff GmbH	Germany
Schroff Inc.	United States
Schroff K.K.	Japan
Schroff S.r.L.	Italy
Schroff SAS	France
Schroff Scandinavia AB	Sweden
Schroff U.K. Ltd.	United Kingdom
Structural Asia/Pacific Corporation	United States

**Name of Company****Jurisdiction of Incorporation**

Structural Ontario Corporation  
Transrack SAS  
Walker Dickson Group Limited  
Walker Dickson Inc.  
WEB Tool & Manufacturing, Inc.  
Wintech Corporation Limited<sup>(1)</sup>  
Wisetech Industrial Limited<sup>(1)</sup>  
WTM, Inc.

United States  
France  
United Kingdom  
United States  
United States  
Cayman Islands  
P.R.C.  
United States

<sup>(1)</sup> – 40% owned

## Exhibit 23

### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-36256, 33-38534, 33-42268, 33-45012, 333-80159, 333-12561, 333-62475, and 333-71566 of Pentair, Inc. of our report dated February 8, 2002 appearing in this Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 2001.

*Deloitte & Touche LLP*

Minneapolis, Minnesota  
March 18, 2002