

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 1995

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-4689

PENTAIR, INC.  
(Exact name of Registrant as specified in its charter)

Minnesota 41-0907434  
(State or other (IRS Employer  
jurisdiction of Identification No.)  
incorporation  
or organization)

1500 County B2 West, Suite 400  
St. Paul, Minnesota 55113-3105  
(Address of principal  
executive offices) (Zip Code)

(612) 636-7920  
(Registrant's telephone number,  
including area code)

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

The number of shares outstanding of Registrant's only class  
of common stock on March 31, 1995 was 18,335,029.

PENTAIR, INC. AND SUBSIDIARIES  
FORM 10-Q  
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PART I - FINANCIAL INFORMATION  
ITEM 1 - FINANCIAL STATEMENTS

PENTAIR, INC.  
CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)  
(\$ expressed in thousands except per share amounts)

	Three Months Ended March 31	
	1995	1994
Net sales	\$459,250	\$389,252
Operating costs		
Cost of goods sold	349,710	290,752
Selling, general and administrative	77,905	72,143
Total operating costs	427,615	362,895
	31,635	26,357
Equity in jt vent income	1,689	378
Operating income	33,324	26,735
Interest expense	8,461	8,424
Interest income	997	589
Income before income taxes	25,860	18,900
Provision for income taxes	10,510	7,800
Net income	15,350	11,100
Preferred dividend req	1,330	1,366
Earnings applicable to common stock	\$14,020	\$9,734
Earnings per share:		
Primary	\$.76	\$.53
Diluted	\$.72	\$.52
Weighted average common and common equivalent shares:		
Primary	18,551	18,372
Diluted	21,143	21,006

See Notes to Consolidated Financial Statements.

PENTAIR, INC.  
CONSOLIDATED BALANCE SHEET  
(Unaudited)  
(\$ expressed in thousands)

ASSETS	March 31, 1995	December 31, 1994
Current Assets		
Cash and cash equiv	\$25,192	\$32,677
Accts receivable - net	287,336	255,105
Inventories		
Finished goods	170,073	139,066
Work in process	43,904	42,502
Raw materials and supplies	66,211	62,083
Total inventory	280,188	243,651
Deferred income taxes	28,193	27,749
Other current assets	9,693	10,037
Total current assets	630,602	569,219
Property, plant and equipment		
Accumulated depreciation	784,882	764,408
PP & E - net	366,840	353,422
Marketable securities - insurance subsidiary	418,042	410,986
Investment in jt ventures	24,641	23,655
Goodwill - net	78,023	81,102
Other assets	180,248	170,965
TOTAL ASSETS	\$1,360,467	\$1,281,496
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$113,790	\$115,962
Compensation and other benefits accruals	60,277	58,297
Income taxes	13,126	7,570
Accrued product claims and warranties	25,854	25,484
Accrued expenses and other liabilities	85,551	72,612
Current maturities of long-term debt	3,979	5,766
Total current liabilities	302,577	285,691
Long-term debt	438,851	408,503
Other liabilities	21,246	20,883
Deferred income taxes	22,341	22,706
Pensions and other retirement compensation	35,204	29,521
Postretirement medical and other benefits	61,594	61,134
Reserves - insurance subsidiary	22,839	21,084
Commitments and contingencies		
Shareholders' equity		
Preferred stock - at liquidation value		
Authorized:		
2,500,000 shares		
Outstanding:		
1995 - 1,941,292	68,008	68,444
1994 - 1,953,243		
Unearned compensation relating to ESOP	(25,448)	(27,528)
Common stock - par value, \$.16 2/3		
Authorized:		
72,500,000 shares		
Outstanding:		
1995 - 18,335,029	3,056	3,041
1994 - 18,248,155		

Additional paid-in capital	168,989	166,314
Currency translation and pension adjustments	16,954	8,033
Retained earnings	224,256	213,670
 Total shareholders' equity	 455,815	 431,974
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,360,467	\$1,281,496

See Notes to Consolidated Financial Statements.

PENTAIR, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)  
(\$ expressed in thousands)

	Three Months Ended	
	March 31	March 31
	1995	1994
Cash provided by (used for)		
Operating activities		
Net income	\$15,350	\$11,100
Adjustments to reconcile to cash flow:		
Depreciation	16,960	16,335
Amortization	994	1,384
Deferred income taxes	(809)	(104)
Undistributed (earnings) from joint venture	(1,689)	(378)
Changes in assets and liabilities, net of effects of acquisition		
Accounts receivable	(32,231)	(22,332)
Inventories	(36,537)	(15,419)
Accounts payable	(2,172)	(1,995)
Compensation and benefits	3,980	6,774
Income taxes	5,556	4,258
Pensions and other retirement compensation	5,683	6,395
Reserves - insurance subsidiary	1,755	1,819
Other assets/liabilities - net	9,181	(2,783)
Net cash from (used for) operating activities	(13,979)	5,054
Investing activities		
Capital expenditures	(16,266)	(14,963)
Cash investment in joint venture - net	4,768	(1,993)
Purchase of marketable securities - net	(986)	729
Acquisition - net of cash acquired	0	(140,116)
Net cash (used) for investing activities	(12,484)	(156,343)
Financing activities		
Borrowings	24,500	175,384
Debt payments	(6,770)	(5,951)
Unearned ESOP compensation decrease	2,080	1,110
Employee stock plans and other	2,479	1,373
Dividends paid	(4,989)	(4,637)
Net cash provided for financing activities	17,300	167,279
Effects of currency exchange rate changes	1,678	1,127
Increase (decrease) in cash and cash equivalents	(7,485)	17,117
Cash and cash equivalents		
- beginning of period	32,677	10,327
- end of period	\$25,192	\$27,444

See Notes to Consolidated Financial Statements.

PENTAIR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions for Form 10-Q and, accordingly, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included.

These statements should be read in conjunction with the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1994, previously filed with the Commission.

2. The results of operations for the three months ended March 31, 1995 are not necessarily indicative of the operating results to be expected for the full year.

3. Income tax provisions for interim periods are based on the current best estimate of the effective federal, state and foreign income tax rates.

4. Earnings per common share are based on the weighted average number of common and common equivalent shares outstanding during each period. The tax benefits applicable to preferred dividends paid to ESOPs are: for allocated shares credited to income tax expense and for unallocated shares, credited to retained earnings and are not considered earnings applicable to common stock.

Fully diluted computations assume full conversion of each series of preferred stock into common stock, the elimination of preferred dividend requirements, and the recognition of the tax benefit on deductible ESOP dividends applicable to allocated shares payable based on the converted common dividend rate. Conversion was assumed during the portion of each period that the securities were outstanding.

5. The long-term debt is summarized as follows (\$ millions):

	March 31, 1995	December 31, 1994
Revolving credit facilities	\$266	\$231
Private placement debt	160	160
Other	17	23
TOTAL	443	414
Current maturities	(4)	(5)
Total long-term debt	\$439	\$409

Debt agreements contain various restrictive covenants, including a limitation on the payment of dividends and certain other restricted payments. Under the most restrictive covenants, \$148 million of the March 31, 1995 retained earnings were unrestricted for such purposes.

6. The Company uses the equity method of accounting for its Joint Ventures, Lake Superior Paper Industries (LSPI) and LSPI Fiber. First quarter operations are summarized as follows (\$ millions):

1995                      1994

Net Sales	\$47.3	39.1
Operating Income	5.0	1.8
Pre-Tax Income	3.4	.8

## 7. Statement of Cash Flows

The following is supplemental information relating to the Statement of Cash Flows (\$000's):

	Three Months Ended March 31	
	1995	1994
Interest paid (net of capitalized interest)	\$8,227	\$8,992
Income tax payments	4,158	3,241

## 8. Acquisition

Effective January 1, 1994, the Company acquired Schroff GmbH and its international subsidiaries, a manufacturer of cabinets, cases, subracks and accessories for the electronics industry, for \$140 million. The acquisition was accounted for by the purchase method, accordingly, the purchase price was allocated to the assets acquired based on their estimated fair values as follows: working capital, \$20.9 million; property, plant and equipment, \$57.8 million; other non-current liabilities, \$17.9 million; and goodwill, \$79.0 million. Goodwill is being amortized on a straight line basis over 25 years.

The Schroff operating results are included in the company's consolidated results from January 1, 1994.

## 9. Subsequent Event

The sale of Cross Pointe Paper Corporation was completed on April 3, 1995. The definitive agreements regarding the sale of Niagara of Wisconsin Paper Corporation, our 50% share of Lake Superior Paper Industries (LSPI) joint venture and our 12% share of Superior Recycled Fiber Industries (SRFI) were signed on May 8, 1995.

## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### BUSINESS SEGMENT INFORMATION

Selected information for business segments for the three months ended March 31, 1995 and 1994 follows (\$millions):

	Specialty Products	General Industrial Equipment	Paper Products	Joint Ventures	General Corporate	Total
1995						
Net Sales	\$117.6	\$219.8	\$125.4	\$0.0	\$(3.5)	\$459.3
Operating Income	13.4	21.1	2.7	1.7	(5.6)	33.3
Identifiable Assets	240.7	677.0	294.5	78.0	70.3	1,360.5
Depreciation	2.5	7.8	6.7	0.0	0.0	17.0
Capital Expenditures	2.0	7.9	6.4	0.0	0.0	16.3
1994						
Net Sales	\$109.9	\$187.1	\$ 92.3	\$0.0	\$0.0	\$389.3
Operating Income	11.4	16.7	4.2	0.4	(6.0)	26.7
Identifiable Assets	216.3	597.4	261.1	73.6	61.3	1,209.7
Depreciation	2.2	7.6	6.5	0.0	0.0	16.3
Capital Expenditures	2.4	6.2	6.4	0.0	0.0	15.0

### RESULTS OF OPERATIONS

Pentair reported net income of \$15.4 million, or 72 cents per fully diluted share, on consolidated net sales of \$459.3 million for the three months ended March 31, 1995. This represented a 38.3 percent increase in net income and

an 18.0 percent increase in sales over the first quarter of 1994. The first quarter 1994 net income was \$11.1 million, or 52 cents per fully diluted share, on consolidated net sales of \$389.3 million.

Specialty Products Segment. Net sales increased \$7.7 million or 7.0% and operating income increased \$2.0 million or 17.8% with Porter Cable contributing much of the improvement. The increases reflect new product sales and further expansion into major home center distribution channels.

General Industrial Equipment Segment. Sales increased \$32.8 million or 17.5% and operating income increased \$4.4 million or 26.6%. Schroff and Hoffman were the major contributors to the increased sales and operating income for the first three months of 1995. Electronic and electrical enclosure sales continued strong for the first quarter of 1995, assisted by the strength in durable goods spending in the U.S. and Europe. Lubrication and material dispensing sales and profits were up considerably from the prior year. The strengthening of the European economy continues to favorably impact the results of the Lincoln GmbH business. Sporting ammunition sales and operating margins were lower due to unfavorable product mix as compared to 1994.

Paper Products Segment. Net sales increased \$33.1 million and operating income decreased \$1.5 million, reflecting continuous margin pressures in uncoated free sheet products. The turnaround in the domestic paper market helped the businesses greatly. Coated groundwood paper volume was up 10.8% and prices increased by \$200 per ton above first quarter 1994 prices. Uncoated paper volume was up 12.7% and prices were up over \$115 per ton over the same period in 1994. Net paper segment results were flat. However, within this segment a \$6.5 million charge was recorded based on senior management's decision to accelerate closure of a sludge disposal facility in Dickinson County, Michigan.

Joint Venture Segment. Tons shipped were flat but prices were up 16.2% or over \$100 per ton as compared to the first quarter of 1994.

#### FINANCIAL CONDITION

In 1995 as in 1994, net income adjusted for non-cash items provided much of the funds for seasonal working capital increases. Accounts receivable levels increased due to dating programs and increased sales. Some subsidiaries were also re-building inventory levels. Borrowings financed some operating needs along with capital expenditures of \$16.3 million in 1995 and \$15.0 million in 1994. The percentage of long-term debt to total capital was 49% at March 31, 1995 compared to 49% at December 31, 1994. In 1994, revolving credit facilities were used to fund the acquisition of Schroff.

The full year 1995 cash flow from operations is expected to increase with additional net income contributions. Working capital needs will grow as total sales increase. Capital expenditures are expected to be down from 1994 to about \$60-70 million in 1995 as compared to \$92.7 million in 1994 due to the expected disposition of all of the paper businesses.

Based upon current operating expectations, credit available under revolving credit facilities is expected to be adequate to cover seasonal working capital and long-term capital expenditure requirements.

#### OUTLOOK

In general, the Company is well-positioned to continue its internal growth. The strong emphasis on product development and aggressive efforts to expand distribution channels that helped during the recent year are expected to continue to

grow market share and sales and profit growth. In all businesses, sales are expected to respond to new products and enhanced customer service.

The sale of Cross Pointe Paper Corporation was completed on April 3, 1995. The definitive agreements regarding the sale of Niagara of Wisconsin Paper Corporation, our 50% share of Lake Superior Paper Industries (LSPI) joint venture and our 12% share of Superior Recycled Fiber Industries (SRFI) were signed on May 8, 1995.

With the expected completion of the disposition of the Paper Products and Joint Venture segments, Pentair will be able to devote full financial and managerial resources to growth and development of its industrial businesses. The proceeds from the sales of the paper businesses will strengthen our capital position and enable the company to pursue industrial acquisitions. These resources also will enable the company to make continued capital expenditures for internal development of the existing industrial businesses.

## PART II - OTHER INFORMATION

### ITEM 4 -Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of Pentair, Inc. was held on April 19, 1995, for the purpose of electing certain members to the board of directors, approving the appointment of auditors, and voting on the proposals described below. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934.

#### DIRECTORS

All of management's nominees for directors as listed in the proxy statement were elected with the following vote:

Shares Voted "For"	Shares "Withheld"	Broker Non-Votes	
Q. Hietpas	17,395,504	165,925	0
R. Schulze	17,385,344	176,085	0
K. Welke	17,371,326	190,103	0

#### AUDITORS

The appointment of Deloitte & Touche LLP as independent auditors of the Company for 1995 was ratified by the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Broker Non-Votes
17,322,488	61,084	177,857	0

#### PROPOSAL 2

A proposal to amend the Restated Articles of Incorporation increasing the total number of shares authorized to be issued from 75,000,000 to 100,000,000 and increase from 10,000,000 to 15,000,000 the number of authorized shares that the Board of Directors could designate as preferred shares, and modify the power of the Board of Directors to establish voting rights of unissued shares did not receive the required 60% approval. The vote tally was as follows:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Broker Non-Votes
-----------------------	------------------------------	------------------------	---------------------

10,973,651      5,274,835      166,329      1,146,614

### PROPOSAL 3

A proposal to amend the Restated Articles of Incorporation increasing the total number of shares authorized to be issued from 75,000,000 to 125,000,000 and increase from 10,000,000 to 15,000,000 the number of authorized shares that the Board of Directors could designate as preferred shares was passed with the following vote:

Shares Voted "For"	Shares Voted "Against"	Shares "Abstaining"	Broker Non-Votes
13,824,183	2,321,552	269,080	1,146,614

In order for either proposal regarding the amendment to the Articles of Incorporation to pass, the proposal was required to receive greater than 60% vote in favor and not more than 25% vote against.

### ITEM 5 - Other Information

The Registrant announced on May 8, 1995 that it has signed a definitive agreement to sell its remaining paper businesses to Consolidated Papers, Inc. of Wisconsin for approximately \$103 million cash, plus assumed debt and lease obligations. The sale includes Niagara of Wisconsin Paper Corporation, our 50% share of Lake Superior Paper Industries (LSPI) joint venture and our 12% share of Superior Recycled Fiber Industries (SRFI). The transaction is expected to close in late June 1995, subject to regulatory clearance and further due diligence.

In connection with the completed sale of Cross Pointe and the expected sale of the remaining assets, the Company has decided to report its Paper Products segment and Joint Ventures segment as discontinued operations, effective May 1, 1995. The consolidated financial statements will be reclassified to report separately the net assets and operating results of the discontinued operations. The company's prior year operating results will also be restated to reflect continuing operations.

The continuing operations will consist of the Specialty Products, General Industrial Equipment, and General Corporate segment. Comparative sales and operating income figures can be found in Part 1 Item 2 Business Segment Information. The results of 1994 and first quarter of 1995 will be restated on a discontinued operations basis on Form 8-K/A to be filed in early June.

### ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits. The following exhibits are included with this Form 10-Q Report as required by Item 601 of Regulation S-K.

Exhibit Number	Description
11	Calculation of Earnings per Common and Common Equivalent Share
27	Financial Data Schedule

(b) Reports on Form 8-K.

A report on Form 8K was filed on April 17, 1995 disclosing the closing of the sale of Cross Pointe Paper Corporation to Noranda Forest, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

/s/ David D. Harrison  
Senior Vice President and  
Chief Financial Officer

May 15, 1995

EXHIBIT INDEX  
Exhibit Number

11 Calculation of Earnings per Common and  
Common Equivalent Share

27 Financial Data Schedule

3-MOS  
DEC-31-1994  
MAR-31-1995  
25192000  
0  
287336000  
0  
280188000  
630602000  
784882000  
366840000  
1360467000  
302577000  
0  
413255000  
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42560000  
0  
1360467000  
459250000  
459250000  
349710000  
427615000  
0  
0  
8461000  
25860000  
10510000  
15350000  
0  
0  
0  
15350000  
.76  
.72

## EXHIBIT 11

PENTAIR, INC. AND SUBSIDIARIES  
 COMPUTATION OF EARNINGS PER COMMON  
 AND COMMON EQUIVALENT SHARE

	Quarter Ended March 31	
	1995	1994
INCOME (\$ thousands)		
Net income	\$15,350	\$11,100
Preferred dividend requirements	1,330	1,366
Earnings available to common and common equivalent shares - Primary	14,020	9,734
Preferred dividends assuming conversion of Preferred Stock:		
Series 1988	250	256
Series 1990	1,080	1,110
Tax benefit on preferred ESOP dividend eliminated due to conversion into common	(332)	(264)
Tax benefit on ESOP dividend assuming conversion to common, at common dividend rate	128	92
Earnings available for common and common equivalent shares - Diluted	\$15,147	\$10,928
SHARES (thousands)		
Weighted average number of shares outstanding during the period	18,302	18,169
Shares issuable on exercise of stock options less shares repurchaseable from proceeds	249	203
Common and Common Equivalent Shares - Primary	18,551	18,372
Shares issuable on conversion of:		
\$7.50 Callable Cumulative Convertible Preferred Stock, Series 1988	499	513
8% Callable Cumulative Voting Convertible Preferred Stock, Series 1990	2,093	2,121
Common and Common Equivalent Shares - Diluted	21,143	21,006
Earnings per Share:		
Primary	\$.76	\$.53
Diluted	.72	.52