Pentair, Inc.
Waters Edge Plaza
1500 County Road B2 West
St. Paul, MN 55113
651 636 7920 Tel
651 639 5203 Fax

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Contact: Mark Cain (651) 639-5278

Pentair Reports Fourth Quarter 2001 Pre-Charge Continuing EPS of $0.27; Full-Year Cash Flow Increases 50% to $179 Million

<u>$41 Million Enclosures Group Restructuring Expected to Deliver First-Year Benefit of $15 Million, $21 Million Annually Thereafter</u>

St. Paul, Minn. – February 7, 2002 – Pentair, Inc. (NYSE: PNR) today reported fourth quarter 2001 pre-charge continuing EPS of $0.27, at the high end of the range provided in the Company's revised guidance issued December 11, 2001. This compares to ($0.02) in the fourth quarter 2000, which included a $25 million one-time charge. Pentair said fourth quarter net sales of $595.9 million declined 12 percent versus the same period in 2000.

A year-over-year working capital reduction of more than 18 percent drove Pentair's full-year free cash flow past its goal of $150 million to a record $179 million, up 50 percent from $117 million in 2000. This cash flow performance represents cash earnings per share (EPS) of $3.62.

"Pentair recorded concrete accomplishments in several important areas during 2001 – among them strong cash flow, reduced debt, innovative product development, and the adoption of lean enterprise practices across the company. But our disappointing 2001 sales and earnings clearly illustrate the impact of the weak global economy and the fact that we have more work to do to return the Company to its previous levels of performance," said Randall J. Hogan, president and chief executive officer.

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Pentair's full year 2001 sales and pre-restructuring charge operating income from continuing businesses totaled $2.6 billion and $198.8 million, respectively, representing a five percent decline in sales and a 12 percent decrease in pre-restructuring charge operating income. The declines were predominately in the Enclosure Group due to adverse market conditions throughout 2001. A pre-tax restructuring charge of $41.1 million was taken in the fourth quarter of 2001 to reduce capacity in the Enclosures Group and gain operational efficiencies. Pre-restructuring charge net income from continuing businesses in 2001 was $87.3 million, or $1.77 diluted EPS as compared to $97.2 million, or $1.99 diluted EPS in 2000, which included one-time charges of $30 million.

Sales in the Tools Group totaled $1.039 billion in 2001, a three percent decline from the previous year. Operating income for the segment was $63.2 million, up 117 percent from 2000. Fourth quarter 2001 sales in the Group totaled $261.6 million, a six percent decline from sales in the same period last year, due to soft retail and industrial sales late in the year. Operating income in the same period was $19.6 million, up 194 percent over the 2000 levels, driven principally by cost savings from supply chain management and lean enterprise initiatives. Excluding one-time charges taken in 2000, fourth quarter 2001 margins improved 600 basis points over year-ago levels, and margins in the Group improved for the fourth consecutive quarter.

Enclosure Group sales totaled $689.8 million in 2001, an 11 percent decline over 2000 levels, and pre-restructuring operating income totaled $41.2 million, a 56 percent decrease over the previous year. Full-year margins dropped from 12.2 percent in 2000 to 6.0 percent in 2001. Group sales totaled $140.2 million in the fourth quarter of 2001, a 30 percent decrease over 2000 levels, while pre-restructuring operating income dropped 94 percent from the previous year to $1.4 million. Fourth quarter margins dropped from 11.1 percent in 2000 to one percent in 2001 as further reductions in volume affected the Group's ability to absorb fixed costs despite significant cost cutting throughout the year. The decrease in volume is attributed to sharp declines in all Enclosures markets, with the industrial market at its lowest point in the last decade.

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The $41.1 million pre-tax restructuring charge in the fourth quarter is to reduce manufacturing capacity in the Enclosures Group by approximately 20 percent, and reduce headcount by approximately 25 percent. Plant closures have been announced at locations in Pennsauken, New Jersey; Brooklyn Center, Minnesota; and Bonneuil-sur-Marne, France. In addition, several support facilities also will be closed. Pentair said that the Enclosures restructuring, which will be completed in the first half of 2002, will yield an estimated $15 million in cost savings during 2002, and $21 million of savings annually thereafter.

The Water Technologies Group reported 2001 sales of $887.5 million, a two percent decline from 2000. Operating income for the segment totaled $109.8 million, down nine percent from 2000. The weak economic environment, coupled with unfavorable sales mix within the pump business and investments in foreign manufacturing capacity, dampened the Water Technologies Group's fourth quarter results. The Group reported fourth quarter 2001 sales of $194.1 million, flat with 2000 levels. Operating income for the segment totaled $17.5 million, down 12.5 percent from the previous year. Return on sales for the segment was 9.0 percent for 2001 versus 10.2 percent for 2000.

In the fourth quarter, Pentair completed the sales of both Lincoln Industrial and the Service Equipment businesses. Estimated proceeds from the sale totaled $94 million and included cash of $75.5 million, of which the $70 million received to date was used to pay down debt. Included in the estimated proceeds is a $37.5 million equity position, recorded at $18.4 million current fair market value, in the new Lincoln Industrial, an indirect wholly-owned subsidiary of LN Holdings Corporation which is owned by management, various institutional investors, Pentair and affiliates of The Jordan Company. The $25 million recorded as loss from discontinued operations in the fourth quarter includes three items stated net of taxes: the $13 million adjustment to record the equity position at its current fair market value; changes in the value of retained pensions and retiree medical totaling $6 million; and an operating shortfall in the discontinued operations amounting to $6 million resulting from the economic downturn in the capital goods market and its effect on the equipment businesses' volumes and earnings.

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“In 2002, we will work to reduce our overall cost structure by some $38 million by further simplifying and rationalizing our infrastructure, capturing supply management opportunities, and implementing lean enterprise practices throughout the organization,” Hogan said, “Our efforts to strengthen our processes and systems capabilities, reinvigorate product development efforts, and develop stronger talent throughout the company will continue. Finally, we will maintain our momentum on cash flow and improving return on investment.”

Pentair adopted accounting standard SFAS No. 142 “Goodwill and Other Intangible Assets” effective January 1, 2002. Accordingly, the Company will no longer amortize goodwill to earnings, resulting in an estimated increment of $0.65 to full-year 2002 EPS.

“Looking forward,” Hogan added, “we expect to achieve full-year 2002 EPS between $2.70 and $2.80, including the effect of the change in goodwill accounting, and first quarter 2002 EPS in the range of $0.30 to $0.35. This assumes there will be no significant changes in prevailing economic conditions in our markets.”

A Pentair conference call scheduled for 9:00 a.m. CST today will be webcast live via http://www.pentair.com. The conference call, which can be found on the site’s “Financial Information” page, will be archived at the same location.

Pentair is a St. Paul-based manufacturer whose core businesses compete in Tools, Water Technologies, and Enclosures markets. The company employs 11,500 people in more than 50 locations around the world.

Any statements made about the company’s anticipated financial results are forward-looking statements subject to risks and uncertainties such as continued economic growth, retail and industrial demand and other competitive pressures, the ability to successfully strengthen management and other uncertainties as described in the company’s Annual Report on Form 10K for the year ended December 31, 2000. Actual results could differ materially from anticipated results.

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Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

In thousands, except per-share data	Quarter ended December 31 2001	Quarter ended December 31 2000	Year ended December 31 2001	Year ended December 31 2000
Net sales	$ 595,926	$ 674,777	$ 2,615,944	$ 2,748,013
Cost of goods sold	442,223	523,187	1,967,945	2,051,515
Gross profit	153,703	151,590	647,999	696,498
% of net sales	*25.8%*	*22.5%*	*24.8%*	*25.3%*
Selling, general and administrative	111,850	128,011	418,963	438,488
% of net sales	*18.8%*	*19.0%*	*16.0%*	*16.0%*
Research and development	8,377	7,831	31,171	31,191
% of net sales	*1.4%*	*1.2%*	*1.2%*	*1.1%*
Restructuring charge	40,105	27,257	40,105	24,789
% of net sales	*6.7%*	*4.0%*	*1.5%*	*0.9%*
Operating income (loss)	(6,629)	(11,509)	157,760	202,030
% of net sales	*(1.1%)*	*(1.7%)*	*6.0%*	*7.4%*
Net interest expense	13,120	18,619	61,488	74,899
% of net sales	*2.2%*	*2.8%*	*2.4%*	*2.7%*
Other expense, write-off of investment	485	—	2,985	—
% of net sales	*0.1%*	*nm*	*0.1%*	*nm*
Income (loss) from continuing operations before income taxes	(20,234)	(30,128)	93,287	127,131
% of net sales	*(3.4%)*	*(4.5%)*	*3.6%*	*4.6%*
Provision for income taxes	(3,961)	(11,661)	35,771	45,263
Effective tax rate	*19.6%*	*38.7%*	*38.3%*	*35.6%*
Income (loss) from continuing operations	(16,273)	(18,467)	57,516	81,868
% of net sales	*(2.7%)*	*(2.7%)*	*2.2%*	*3.0%*
Loss from discontinued operations, net of tax	—	(7,962)	—	(24,759)
Loss on sale of discontinued operations, net of tax	(24,647)	—	(24,647)	—
Cumulative effect of accounting change, net of tax	—	—	—	(1,222)
Net income (loss)	$ (40,920)	$ (26,429)	$ 32,869	$ 55,887
Earnings per common share				
Basic				
Continuing operations	$ (0.33)	$ (0.38)	$ 1.17	$ 1.68
Discontinued operations	(0.50)	(0.16)	(0.50)	(0.51)
Cumulative effect of accounting change	—	—	—	(0.02)
Basic earnings per common share	$ (0.83)	$ (0.54)	$ 0.67	$ 1.15
Diluted				
Continuing operations	$ (0.33)	$ (0.38)	$ 1.17	$ 1.68
Discontinued operations	(0.50)	(0.16)	(0.50)	(0.51)
Cumulative effect of accounting change	—	—	—	(0.02)
Diluted earnings per common share	$ (0.83)	$ (0.54)	$ 0.67	$ 1.15
Weighted average common shares outstanding				
Basic	49,070	48,682	49,047	48,544
Diluted	49,376	48,696	49,297	48,645
Cash dividends declared per common share	$ 0.18	$ 0.17	$ 0.70	$ 0.66

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

In thousands	December 31 2001	December 31 2000
Assets		
Current assets		
Cash and cash equivalents	$ 39,844	$ 34,944
Accounts and notes receivable, net	398,579	468,081
Inventories	300,923	392,495
Other current assets	90,932	95,019
Net assets of discontinued operations	5,325	101,263
Total current assets	835,603	1,091,802
Property, plant and equipment, net	329,500	352,984
Goodwill, net	1,088,206	1,141,102
Other assets	118,889	58,137
Total assets	$ 2,372,198	$ 2,644,025
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings	$ —	$ 108,141
Current maturities of long-term debt	8,729	23,999
Accounts and notes payable	179,149	250,088
Accrued expenses and other current liabilities	240,555	266,564
Total current liabilities	428,433	648,792
Long-term debt	714,977	781,834
Other noncurrent liabilities	213,786	202,808
Total liabilities	1,357,196	1,633,434
Shareholders' equity	1,015,002	1,010,591
Total liabilities and shareholders' equity	$ 2,372,198	$ 2,644,025

Pentair, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

In thousands	Year ended December 31 2001	Year ended December 31 2000
Operating activities		
Net income	$ 32,869	$ 55,887
Depreciation	62,674	59,897
Amortization	41,675	39,131
Deferred income taxes	(5,315)	9,735
Restructuring charge	41,060	24,789
Other expense, write-off of investment	2,985	—
Loss on sale of discontinued operations	24,647	—
Cumulative effect of accounting change	—	1,222
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts and notes receivable	70,890	17,908
Inventories	87,840	(45,893)
Prepaid expenses and other current assets	653	(9,588)
Accounts payable	(69,321)	32,973
Employee compensation and benefits	(13,185)	(10,810)
Accrued product claims and warranties	(4,468)	(6,318)
Income taxes	9,942	(8,467)
Other current liabilities	(50,758)	(17,715)
Pension and post-retirement benefits	17,199	5,353
Other assets and liabilities	(7,205)	(7,296)
Net cash provided by continuing operations	242,182	140,808
Net cash provided by (used for) discontinued operations	(9,848)	44,139
Net cash provided by operating activities	232,334	184,947
Investing activities		
Capital expenditures	(53,668)	(68,041)
Proceeds from sale of businesses	70,100	—
Acquisitions, net of cash acquired	(1,937)	—
Equity investments	(25,438)	—
Other	(186)	(32)
Net cash used for investing activities	(11,129)	(68,073)
Financing activities		
Net short-term borrowings (repayments)	(108,336)	(42,471)
Proceeds from long-term debt	2,811	8,108
Repayment of long-term debt	(84,525)	(82,271)
Proceeds from exercise of stock options	2,913	3,100
Proceeds from issuance of common stock, net	—	774
Repurchases of common stock	(1,458)	(410)
Dividends paid	(34,327)	(32,038)
Net cash used for financing activities	(222,922)	(145,208)
Effect of exchange rate changes on cash	6,617	263
Change in cash and cash equivalents	4,900	(28,071)
Cash and cash equivalents, beginning of period	34,944	63,015
Cash and cash equivalents, end of period	$ 39,844	$ 34,944
Free cash flow		
Net cash provided by operating activities	$ 232,334	$ 184,947
Less capital expenditures	(53,668)	(68,041)
Free cash flow	$ 178,666	$ 116,906
Weighted average common shares outstanding - Diluted	49,297	48,645
Free cash flow per share	$ 3.62	$ 2.40

Pentair, Inc. and Subsidiaries

Financial Information by Reportable Business Segment (Unaudited)

	Quarter ended		Year ended	
In thousands	December 31 2001	December 31 2000	December 31 2001	December 31 2000
Net sales to external customers				
Tools	$ 261,632	$ 279,428	$ 1,038,606	$ 1,066,616
Water	194,084	195,859	887,518	903,672
Enclosures	140,210	199,490	689,820	777,725
Consolidated	$ 595,926	$ 674,777	$ 2,615,944	$ 2,748,013
Operating income (loss) before restructuring charge				
Tools (2)	$ 19,627	$ (20,865)	$ 63,232	$ 29,147
Water	17,522	20,023	109,792	120,732
Enclosures	1,429	22,166	41,240	94,643
Other	(4,147)	(5,576)	(15,444)	(17,703)
Consolidated	$ 34,431	$ 15,748	$ 198,820	$ 226,819
Operating income (loss) before restructuring charge as a percent of net sales				
Tools (2)	7.5%	(7.5%)	6.1%	2.7%
Water	9.0%	10.2%	12.4%	13.4%
Enclosures	1.0%	11.1%	6.0%	12.2%
Consolidated	5.8%	2.3%	7.6%	8.3%
Restructuring charge (income)				
Tools	$ —	$ 6,567	$ —	$ 5,396
Water	—	—	—	—
Enclosures	39,383	(328)	39,383	(1,625)
Other	1,677	21,018	1,677	21,018
Consolidated (1)	$ 41,060	$ 27,257	$ 41,060	$ 24,789
Operating Income (Loss) After Restructuring Charge				
Tools (2)	$ 19,627	$ (27,432)	$ 63,232	$ 23,751
Water	17,522	20,023	109,792	120,732
Enclosures	(37,954)	22,494	1,857	96,268
Other	(5,824)	(26,594)	(17,121)	(38,721)
Consolidated	$ (6,629)	$ (11,509)	$ 157,760	$ 202,030

(1) $955 thousand of the fourth quarter 2001 restructuring charge is included in cost of goods sold on the consolidated income statements for the write-down of inventory on certain product lines that were discontinued as a result of plant closures.

(2) Tools segment operating income 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.