FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

PENTAIR INC
CIK:**77360**| IRS No.: **410907434** | State of Incorp.:**MN** | Fiscal Year End: **1231**
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SIC: **3560** General industrial machinery & equipment

Business Address
1500 COUNTY RD - B2 WEST
SUITE 400
ST PAUL MN 55113-3105
6126367920

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1994

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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 X No

The number of shares outstanding of Registrant's only class of common stock on March 31, 1994 was 18,181,570.

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

<TABLE>
<CAPTION>
PENTAIR, INC.
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
($ expressed in thousands except per share amounts)
<CAPTION>

	Three Months Ended March 31	
	1994	1993
<S>	<C>	<C>
Net sales	$389,252	$321,829
Operating costs		
Cost of goods sold	290,752	244,909
Selling, general and administrative	72,143	54,960
Total operating costs	362,895	299,869
	26,357	21,960
Equity in joint venture income (loss)	378	(817)
Operating income	26,735	21,143
Interest expense	8,424	5,591
Interest income	589	448
Income before income taxes	18,900	16,000
Provision for income taxes	7,800	6,500
Net income	11,100	9,500
Preferred dividend requirements	1,366	2,000
Earnings applicable to common stock	$9,734	$7,500
Earnings per share:		
Primary	$.53	$.45
Diluted	$.52	$.44
Weighted average common and common equivalent shares:		
Primary	18,372	16,572
Diluted	21,006	20,895

</TABLE>
See Notes to Consolidated Financial Statements.

<TABLE>
PENTAIR, INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)
($ expressed in thousands)
<CAPTION>

ASSETS	March 31, 1994	December 31, 1993
<S>	<C>	<C>
Current assets		
Cash and cash equivalents	$27,444	$10,327
Accounts receivable - net	245,718	200,425
Inventories		
Finished goods	141,959	122,712
Work in process	49,264	35,315
Raw materials	44,296	35,108
Supplies	5,734	5,691
Total inventory	241,253	198,826
Deferred income taxes	21,892	21,575

Other current assets	12,122	7,627
Total current assets	548,429	438,780
Property, plant and equipment	696,552	621,617
Less accumulated depreciation	322,237	305,751
Property, plant and equipment - net	374,315	315,866
Marketable securities - insurance subsidiary	17,865	18,594
Investment in joint ventures	75,238	72,867
Goodwill - net	169,129	88,970
Other assets	24,759	23,724
TOTAL ASSETS	$1,209,735	$958,801
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$97,619	$93,820
Compensation and other benefits accruals	55,840	42,737
Income taxes	14,321	8,787
Accrued product claims and warranties	23,351	22,256
Accrued expenses and other liabilities	70,079	50,075
Current maturities of long-term debt	4,647	803
Total current liabilities	265,857	218,478
Long-term debt	420,926	238,856
Other liabilities	23,072	18,911
Deferred income taxes	7,731	7,518
Pensions and other retirement compensation	36,082	29,687
Postretirement medical and other benefits	60,837	60,637
Reserves - insurance subsidiary	15,684	13,865
Commitments and contingencies		
Shareholders' equity		
Preferred stock - at liquidation value		
Authorized: 2,500,000 shares		
Outstanding: 1994 - 1,973,135 1993 - 1,976,443	69,224	69,380
Unearned compensation relating to ESOP	(34,343)	(35,453)
Common stock - par value, $.16 2/3		
Authorized: 72,500,000 shares		
Outstanding: 1994 - 18,181,570 1993 - 18,134,638	3,030	3,022
Additional paid-in capital	164,740	163,460
Foreign currency translation adjustment	(550)	(287)
Other - net	(6,760)	(6,760)
Retained earnings	184,205	177,487
Total shareholders' equity	379,546	370,849
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,209,735	$958,801

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

PENTAIR, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

($ expressed in thousands)

<CAPTION>

	Three Months Ended	
	March 31 1994	March 31 1993
<S>	<C>	<C>
Cash provided by (used for)		
Operating activities		
Net income	$11,100	$9,500
Adjustments to reconcile to cash flow		
Depreciation	16,335	12,163
Amortization	1,384	620
Deferred income taxes	(104)	86
Undistributed loss (earnings) from joint venture	(378)	817
Changes in assets and liabilities, net of effects of acquisition		
Accounts receivable	(22,332)	(19,357)
Inventories	(15,419)	(3,218)
Accounts payable	(1,995)	(16,557)

Income taxes	4,258	(880)
Pensions and other retirement compensation	6,395	3,248
Reserves - insurance subsidiary	1,819	2,068
Other assets/liabilities - net	5,118	4,349
Net cash from (used for) operating activities	6,181	(7,161)
Investing activities		
Capital expenditures	(14,963)	(12,841)
Cash investment in joint venture - net	(1,993)	(1,500)
Purchase of marketable securities - net	729	(2,069)
Acquisition - net of cash acquired	(140,116)	0
Net cash (used) for investing activities	(156,343)	(16,410)
Financing activities		
Borrowings	175,384	24,853
Debt payments	(5,951)	(563)
Unearned ESOP compensation decrease	1,110	1,125
Employee stock plans and other	1,373	1,359
Dividends paid	(4,637)	(4,706)
Net cash provided for financing activities	167,279	22,068
Increase (decrease) in cash and cash equivalents	17,117	(1,503)
Cash and cash equivalents		
- beginning of period	10,327	8,392
- end of period	$27,444	$6,889

</TABLE>

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, 1993, previously filed with the Commission.

2. The results of operations for the three months ended March 31, 1994 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, 1994	December 31, 1993
Revolving credit loans	$174	$65
Private placement debt	160	160
Other	92	15
TOTAL	426	240
Current maturities	(5)	(1)
Total long-term debt	$421	$239

Debt agreements contain various restrictive covenants, including a limitation on the payment of dividends and certain other restricted payments. Under the most restrictive covenants, $69 million of the March 31, 1994 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):

	1994	1993
Net Sales	$39.1	$34.2
Operating Income (Loss)	1.8	(.9)
Pre-Tax Income (Loss)	.8	(1.6)

7. Statement of Cash Flows

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

	Three Months Ended March 31 1994	1993
Interest paid (net of capitalized interest)	$8,992	$4,258
Income tax payments	3,241	6,396

All outstanding shares of the Pentair, Inc. $1.50 Cumulative Convertible Preferred Stock, Series 1987 were called for redemption on March 15, 1993. In lieu of redemption, substantially all of the preferred shares were converted into approximately 1,450,780 shares of common stock. This conversion is treated as a non-cash transaction.

8. Acquisition

On February 28, 1994, the Registrant completed the purchase from Fried. Krupp Hoesch-Krupp of all of the net assets and business of the Schroff Group (Schroff), including the stock of its international subsidiaries, for $154 million paid in cash at closing, which includes $1.7 million in interest accrued from January 1, 1994, the economic transfer date.

The operating assets of the Schroff manufacturing facilities in Germany were acquired by a new indirect German subsidiary of the Registrant, Schroff GmbH, subject to normal payables and accruals of the business. These assets were used by Schroff in the manufacture of cabinets, cases, subracks and accessories for the electronics industry. Schroff GmbH is continuing its predecessor's business and will use the assets in the same manner as before.

The outstanding stock of all of the European subsidiaries of Schroff was acquired by a new wholly-owned subsidiary of the Registrant, EuroPentair GmbH, which also owns the stock of the new Schroff GmbH. The outstanding stock of the non-European subsidiaries of Schroff, which includes its U.S. subsidiary Schroff, Inc., was acquired by FC Holdings Inc., a wholly-owned U.S. subsidiary of the Registrant.

Pro Forma Financial Information

The Schroff operating results are included in the company's consolidated results from January 1, 1994. The following pro forma financial information assumes the acquisition occurred at the beginning of 1993. These results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made at the beginning of 1993, or of the results which may occur in the future.

(Unaudited)
<TABLE>
<CAPTION>

	Year Ended December 31, 1993	
<S>	<C>	
Net Sales	$1,480.2	million
Net Income	$46.8	million
Earnings Per Share		
Primary	$2.27	
Diluted	$2.21	

</TABLE>

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

BUSINESS SEGMENT INFORMATION
<TABLE>
Selected information for business segments for the three months ended March 31, 1994 and 1993
follows ($ millions):
<CAPTION>

	Specialty Products	General Industrial Equipment	Paper Products	Joint Ventures	General Corporate	Total
1994						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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
1993						
Net Sales	$ 95.9	$128.2	$ 97.7	$0.0	$0.0	$321.8
Operating Income	9.6	9.5	6.7	(0.8)	(3.9)	21.1
Identifiable Assets	192.1	379.7	235.3	59.0	29.9	896.0
Depreciation	1.9	4.1	6.1	0.0	0.1	12.2
Capital Expenditures	1.1	2.4	9.3	0.0	0.0	12.8

</TABLE>

RESULTS OF OPERATIONS

Pentair reported net income of $11.1 million, or 52 cents per fully diluted share, on consolidated net sales of $389.3 million for the three months ended March 31, 1994. This represented a 16.8 percent increase in net income and a 20.9 percent increase in sales over the first quarter of 1993. The first quarter 1993 net income was $9.5 million, or 44 cents per fully diluted share, on consolidated net sales of $321.8 million.

Specialty Products Segment. Net sales increased $14.0 million and operating income increased $1.8 million with each company in the segment contributing to the improvement. The increases reflect new products and further expansion into major home center distribution channels. The poor Canadian economy and the effect of falling Canadian foreign exchange rates had a negative impact on Specialty Products results.

General Industrial Equipment Segment. Sales increased $58.8 million and operating income increased $7.1 million. Schroff was a major contributor to the increased sales and operating income for the first three months of 1994. Electrical enclosure sales continued strong for the first quarter of 1994, assisted by the strength in durable goods spending in the U.S. Sporting ammunition sales were also higher and margins improved with lower raw material costs. Lubrication and material dispensing sales and profits were comparable to the prior year. The weakness of the European economy continues to impact the results of the Lincoln business.

Paper Products Segment. Net sales decreased $5.4 million and operating income decreased $2.7 million. Coated groundwood paper volume was down 5.2% and prices were down 1.6% over the first quarter of 1993. Uncoated paper volume was down 3.9% and prices were down only .8%. Although prices in the market were down, lower raw material costs for the first two months of 1994 and operating efficiencies helped to offset the decrease.

Joint Venture. Tons shipped were up 6.0% and prices were up 2.2%. This business continues to be influenced by worldwide industry overcapacity in both the lightweight coated and SCA markets.

FINANCIAL CONDITION

In 1994 as in 1993, net income adjusted for non-cash items provided much of the funds for seasonal working capital increases which consisted of accounts receivable dating programs and building of inventory levels. Borrowings financed some operating needs along with capital expenditures of $15.0 million in 1994 and $12.8 million in 1993. The percentage of long-term debt to total capital was 53% at March 31, 1994 compared to 39% at December 31, 1993, substantially all of which was due to the acquisition of Schroff during the first quarter of 1994. Revolving credit facilities were used to fund the acquisition of Schroff.

The full year 1994 cash flow from operations is expected to be comparable to 1993. Working capital needs will grow as total sales increase. Capital expenditures are expected to be about $80-90 million in 1994 as compared to $73.4 million in 1993.

Effective as of February 11, 1994, Pentair entered into revolving credit facilities with a group of six banks, Continental Bank N.A., Morgan Guaranty Trust Company of New York, J.P.

Morgan Delaware, First Bank National Association, Norwest Bank Minnesota, N.A. and NBD Bank, N.A. Two parallel facility agreements provide for aggregate credit lines of $170 million divided among two bank groups. Pentair's outstanding Bid Loan Agreement with certain of these banks was amended in a related transaction. The facility agreements provide for revolving credits for a three-year period, unless extended, at the expiration of which period the outstanding loans are converted into a term loan having a four-year repayment period. The credit facilities are unsecured and include certain financial and other covenants on the part of Pentair.

In addition, Pentair and its new subsidiary formed in connection with the Schroff acquisition, EuroPentair GmbH, entered into a 115 million Deutschmark (approximately US $65 million) facility agreement as of February 11, 1994 with Morgan Guaranty Trust Company of New York, Continental Bank N.A., NBD Bank N.A., and Dresdner Bank AG. EuroPentair's obligations under the Deutschmark agreement are guaranteed by the Registrant. This facility is similar to the two other domestic credit agreements, but provides for borrowings and repayments in German marks or certain other European currencies. This facility also provides for unsecured revolving loans for a three-year period with a similar term loan conversion and four-year repayment period. Substantially all of the available credit under this agreement was borrowed at the closing of the Schroff acquisition.

The three revolving credit facilities discussed above replace previous credit agreements between Pentair and these banks for revolving credit in the aggregate amount of $225 million.

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

OUTLOOK

In general, the Company is strong and well-positioned to continue its growth. The strong emphasis on product development and aggressive efforts at expanding distribution channels that helped during the recent weak economic cycle are expected to continue to grow market share and sales and profit growth. The company does not foresee a significant recovery in the European and Canadian economies in the short term. Such a recovery would have a favorable impact to some degree on future results.

In all businesses, sales are expected to respond to new products and enhanced customer service. In particular, sales in the Specialty Products segment should benefit from a continued focus on market expansion through new distribution channels such as homecenter chains and lumberyards. Certain businesses have reduced product and operating costs over the last few years, so profitability should respond positively to increased sales. In the paper industry, some paper manufacturers have taken downtime to cut inventories. This may reduce domestic industry capacity, helping to correct the current supply-demand imbalance. In the premium paper industry, marketing and distribution strategies emphasizing high demand recycle specialty grades and prompt delivery of value-added product have been put in place and continue to contribute to profitability. Signs of price increases in Europe may help the SCA and LWC markets, if the European manufacturers withdraw tonnage from the U.S. markets and redirect it to their home markets.

PART II - OTHER INFORMATION

ITEM 1 -Legal Proceedings

McNeil (Ohio) Corporation. F.E. Myers (Myers), a division of McNeil (Ohio) Corporation, three other pump manufacturers and a distributor were sued on April 18, 1994 by two environmental groups pursuant to California Health and Safety Code Section 25249 (Proposition 65) and the Unfair Practices Act, Business and Professions Code Section 17200. Basic information concerning this matter was previously reported in the Company's Form 10-K for the year ending December 31, 1993. The lawsuit alleges violations of California law arising from discharge of lead from submersible water pumps into drinking water. Claims have been made for injunctive relief, statutory penalties and damages. Myers was not sued in a separate Proposition 65 suit filed by the State of California against the three other pump manufacturers. Based on the information currently known, the Registrant believes that this matter is unlikely to result in material liability.

ITEM 4 -Results of Votes of Security Holders

(a) The annual meeting of shareholders was held on April 20, 1994.

(c) The only matters voted upon at the annual meeting were the election of directors and the approval of auditors. The vote tallies are as follows:

DIRECTORS:

	C. A. Haggerty	H. V. Haverty	D. E. Nugent
FOR	17,674,305	17,676,382	17,652,285
WITHHELD	134,456	132,379	156,476

AUDITORS:	Deloitte & Touche
FOR	17,568,967
AGAINST	92,616
ABSTAIN	147,718
BROKER NON-VOTES	0

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

(b) Reports on Form 8-K.

A report on Form 8K was filed on January 4, 1994 disclosing the definitive agreement to acquire the Schroff Group from Fried. Krupp AG Hoesch-Krupp of Germany.

A Form 8K/A (Amendment to Form 8K which was filed on January 4, 1994) was filed on January 10, 1994 disclosing the purchase agreement for the transaction.

A report on Form 8K was filed on March 14, 1994 reporting the completion of the acquisition.

A Form 8K/A (Amendment to Form 8K which was filed on March 14, 1994) was filed on May 13, 1994 disclosing the financial statements of the business acquired (Schroff) and the pro forma financial information for Pentair and Schroff.

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 13, 1994

EXHIBIT INDEX

Exhibit Number

11 Calculation of Earnings per Common and Common Equivalent Share

EXHIBIT 11
<TABLE>
PENTAIR, INC. AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE
<CAPTION>

	Quarter Ended March 31 1994	Quarter Ended March 31 1993
INCOME ($ thousands)		
<S>	<C>	<C>
Net income	$11,100	$9,500
Preferred dividend requirements	1,366	2,000
Earnings available to common and common equivalent shares - Primary	9,734	7,500
Preferred dividends assuming conversion of Preferred Stock:		
Series 1987	0	620
Series 1988	256	255
Series 1990	1,110	1,125
Tax benefit on preferred ESOP dividend eliminated due to conversion into common	(264)	(212)
Tax benefit on ESOP dividend assuming conversion to common, at common dividend rate	92	71
Earnings available for common and common equivalent shares - Diluted	$10,928	$9,359
SHARES (thousands)		
Weighted average number of shares outstanding during the period	18,169	16,394
Shares issuable on exercise of stock options less shares repurchaseable from proceeds	203	178
Common and Common Equivalent Shares - Primary	18,372	16,572
Shares issuable on conversion of:		
$1.50 Cumulative Convertible Preferred Stock, Series 1987	0	1,660
$7.50 Callable Cumulative Convertible Preferred Stock, Series 1988	513	530
8% Callable Cumulative Voting Convertible Preferred Stock, Series 1990	2,121	2,133
Common and Common Equivalent Shares - Diluted	21,006	20,895
EARNINGS PER SHARE:		
PRIMARY	$.53	$.45

DILUTED	.52	.44

</TABLE>

All share and per share data adjusted for 50% stock dividend in June 1993.